REVIEW OF THE BURLEY TOBACCO PROGRAM

Y 4. AG 8/1: 103-46

Review of the Burley Tobacco Progra...

HEARING

BEFORE THE

SUBCOMMITTEE ON SPECIALTY CROPS AND NATURAL RESOURCES

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

OCTOBER 29, 1993, LEXINGTON, KY

Serial No. 103–46

DEPOSITORY

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REVIEW OF THE BURLEY TOBACCO PROGRAM

FRIDAY, OCTOBER 29, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SPECIALTY CROPS
AND NATURAL RESOURCES,
COMMITTEE ON AGRICULTURE,
Lexington, KY.

The subcommittee met, pursuant to call, at 10:30 a.m., in the Seay Auditorium, Agriculture Science Center Building-North, University of Kentucky, Lexington, KY, Hon. Charlie Rose (chairman of the subcommittee) presiding.

Present: Representative Baesler.

Staff present: Keith Pitts.

OPENING STATEMENT OF HON. CHARLIE ROSE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ROSE. The Specialty Crops and Natural Resources Subcommittee of the House Agriculture Committee will please come to order.

The reason that we are here today, it says on my official statement, is to review the Burley tobacco program and the 1993 Burley tobacco market. But the real reason I am here is because your Congressman Scotty Baesler asked me to come here and to review this. I am very delighted, Congressman, to be in your district. You have sent us a Congressman who came to town without need of a whole lot of training. In other words, he came with a lawyer's background, knowing how to separate the wheat from the chaff pretty quickly and he has been a real asset to the Tobacco Subcommittee. And with his help, we will keep tobacco a strong commodity for both my State of North Carolina and for your State of Kentucky.

Before I introduce the first panel, I would like to recognize Congressman Scotty Baesler for any comments he would like to make.

Mr. BAESLER. Mr. Chairman, the only comment I would like to make is to thank you for coming and we appreciate you holding this meeting here because tobacco is very important to us, as you know, as it is in your State of North Carolina, and I am anxious to hear what the panels have to say.

Mr. ROSE. Thank you, sir.

Our first panel is the Honorable Dallas R. Smith, the Deputy Under Secretary, International Affairs and Commodity Programs for the U.S. Department of Agriculture, Washington, DC. Along with him, Mr. Jack Forlines, the Acting Director of Tobacco and

Peanuts Division, ASCS, Department of Agriculture, Washington, DC; and Dr. Robert Miller, Director of Tobacco and Peanuts Analysis Division, ASCS, U.S. Department of Agriculture, Washington, DC; and Mr. Larry Hopkins, who you all know, Director of the Tobacco Division of the Agricultural Marketing Service, U.S. Department of Agriculture, Washington, DC; and finally, Dr. William M. Snell, assistant extension professor, department of agricultural economics, University of Kentucky, Lexington, KY; and Mr. Lawrence Newman, the regional director, Ag Marketing Service, Tobacco Grading Service of Brooksville, Kentucky, is also here accompanying Mr. Larry Hopkins.

I think Deputy Secretary Smith has a statement, and then, I believe Dr. Snell also has a prepared statement. Mr. Secretary, if you will proceed. We will be glad and pleased to hear from you, sir.

STATEMENT OF DALLAS R. SMITH, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JACK FORLINES, ACTING DIRECTOR, TOBACCO AND PEANUTS DIVISION, ASCS; ROBERT MILLER, DIRECTOR, TOBACCO AND PEANUTS ANALYSIS DIVISION, ASCS; AND LARRY HOPKINS, DIRECTOR, TOBACCO DIVISION, AMS

Mr. SMITH. Thank you, Mr. Chairman and Congressman Baesler. It is indeed a pleasure for me to be back here in Lexington, Kentucky, talking about one of my favorite subjects, and that is the tobacco program.

Members of the subcommittee, I am here today to discuss the different issues as they relate to the tobacco price support program. I have with me Jack Forlines, who has been previously introduced as Acting Director of the Tobacco and Peanuts Division of ASCS; also, Dr. Robert Miller, who is Director of the ASCS Tobacco and Peanuts Analysis Division; and also, Mr. Larry Hopkins, who is Director, Tobacco Division of AMS, who will assist me in answering any questions that you may have at the end of my prepared remarks.

Tobacco has continued its positive contribution to the U.S. trade balance during the first 8 months of 1993. Exports surpassed imports by $2.45 billion during the January-August 1993, period. Unmanufactured tobacco contributed $921 million and tobacco products added an additional $3.54 billion in export earnings. Cigarette exports during the period totaled $2.41 billion. Burley tobacco accounted for over $341 million of the unmanufactured tobacco shipments. Flue-cured and Fire-cured tobacco added $464 million and $30 million, respectively. Now the estimated farm-sales-weight equivalent of the Burley tobacco exported is 152.7 million pounds.

I want to identify a number of forces of change with the potential to impact on tobacco industry and potential impacts on various sectors of the industry. At the sector level, a force of change impacts one or more of the determinants of income; that is, price, average cost of production or quantity produced and sold. These impacts generate structural changes as measured by the number and size of individuals and entities in the sector and location of the activity.

Each force of change will exert unique impacts upon the structure of the industry. In some cases, the influence upon an income

determinant is predictable, while with others, the effect, such as incidence, direction and magnitude, is not readily discernible.

Two major items in this area are the minimum domestic tobacco content law, with regard to U.S. manufactured cigarettes and changes in Federal and potentially State excise tax rates.

Other forces are the rising budget deficit; the adoption of "no smoking" areas and declining social acceptance of cigarette smoking, and the continued erosion of U.S. market shares to low-cost foreign grown tobacco. My statement today will concentrate on the minimum domestic content law.

As you know, Mr. Chairman, the Flue-cured market has experienced weak demand with a large quantity of tobacco being taken by the Flue-Cured Stabilization Corporation. There are several factors involved. We understand the quality of the 1993 crop is considerably below average. Furthermore, the U.S. manufacturers face a great deal of uncertainty about the future of Federal and State excise taxes and are trying to determine their options under the minimum domestic content law.

Through October 21, most of the 1993 Flue-cured crop had been sold at an average of $1.68 per pound, 4 cents below a year ago. Loan receipts present one-fifth of the crop and have reached the highest amount since 1983. We cannot tell whether or not some of these same conditions will occur for Burley tobacco when the Burley market opens next month.

The 1993 Budget Reconciliation Law, enacted August 10, amended the Agricultural Adjustment Act of 1938 to provide a 75 percent level of use of U.S.-grown tobacco in cigarettes produced in this country. This is commonly known as the Ford amendment. Currently, about 40 percent of the tobacco used in domestically produced cigarettes is imported. Thus, to comply with the new law, manufacturers will have to sharply reduce the amount of imported tobacco share in their blends. As multinational firms, manufacturers could shift some portion of their output to overseas factories.

These 1993 amendments require U.S. domestic manufacturers of cigarettes to certify annually to the Secretary of Agriculture the percentage of U.S.-produced tobacco in the total quantity of tobacco used by domestic manufacturers to produce cigarettes during the calendar year. Affected manufacturers who exceed the 25 percent foreign content limitation or who do not certify the percentage of foreign content used will be required to pay a nonrefundable marketing assessment to the Commodity Credit Corporation. In addition, affected manufacturers who exceed the 25 percent limit must purchase U.S. tobacco in equal amounts between Flue-cured and Burley—from domestic producer-owned cooperative marketing associations in an amount equal to the quantity of imported tobacco that was used in excess of the 25 percent limit. Failure to purchase the required amount of tobacco from the associations can result in a penalty assessment equal to 75 percent of the average market price for the respective type of tobacco for the total purchase shortage.

The United States and virtually all of our trading partners are contracting parties to the General Agreement on Tariffs and Trade—commonly called GATT. Under GATT, countries may request consultation and dispute settlement proceedings if they be-

lieve another country has taken any action in which there is a violation of GATT. Subsequent to the enactment of the legislation, leading suppliers of tobacco to the United States formally requested a consultation under GATT to review the consistency of the Ford amendment with our international obligations. The initial consultations were held on October 4, and the United States is in the process of preparing an official response to questions raised during the consultation. At the end of these consultations, these countries may request that the United States' action be examined by a GATT panel of experts. If a GATT panel were to find the measure inconsistent with the GATT, the United States would be requested to take corrective action.

The Department is currently developing proposed rules for implementing the domestic content requirements of the domestically produced cigarettes and to impose assessments on imported tobacco. The proposed rules will be published in the Federal Register and the public will be afforded an opportunity to comment before a final regulation is published.

With excess supplies, Flue-cured and Burley marketing quotas are both likely to decline the full 10 percent in 1994. Beyond next year, the path of U.S. production depends on the changes in the Federal cigarette excise taxes, State and local taxes, and the margins of U.S. cigarette manufacturers, as well as whether or not U.S. firms move any of their processing facilities overseas. Restrictions on where people can smoke will probably grow and the social acceptability of smoking will probably decline further. In addition, the U.S. industry faces stiff competition from foreign tobacco growers in supplying the world leaf supplies.

Mr. Chairman, this gives a brief overview of where we are, on tobacco currently.

We will be glad to respond to any questions.

[The prepared statement of Mr. Smith appears at the conclusion of the hearing.]

Mr. ROSE. Thank you very much. I do not believe Mr. Forlines, Mr. Miller, or Mr. Hopkins have prepared statements, but they are prepared to answer questions?

Mr. SMITH. Yes, sir.

Mr. ROSE. But, Dr. Snell, you do have some prepared comments?

Mr. SNELL. Yes, sir.

Mr. ROSE. Before I go to you, let me ask Secretary Smith—you are aware that in the budget reconciliation package that we did some other things—there were other tobacco-related provisions concerning no-net cost assessments, foreign leaf inspection, did you cover all of those?

Mr. SMITH. No, sir. Some of those would be administered by AMS in terms of the inspection fee, equalizing the inspection fee on imported tobacco with what is done domestically. And yes, there were fees to be charged on imported tobacco similar to our no-net cost fee and also our budget deficit fee. And Mr. Forlines may have some additional comments on that.

Mr. ROSE. We have also put in place a 10 percent cut limit for Burley and Flue-cured quotas.

Mr. SMITH. Yes, sir. And that 10 percent is likely to minimize the amount of cut that will take place in the 1994 crop.

Mr. ROSE. In other words, under the old law, we had said that the quota cut could only be 10 percent for a certain number of years. But, we have extended that for 5 years in this 5-year budget package.

Mr. SMITH. No, sir. It is my understanding that it was extended for one additional year under the budget package to the Secretary. But it is left up to the Secretary, given the supply-use situation as to whether it could be extended beyond——

Mr. ROSE. Beyond. OK.

Now, the rule that you mentioned about public comment. Public comment time will be allowed to comment on what? The regulations you will propose for the domestic content?

Mr. SMITH. Yes, sir. In implementing the domestic content provisions, as well as the methods that we will use to implement the assessments would be open for public comment on the procedures to be followed.

Mr. ROSE. When will that be sent out?

Mr. FORLINES. We have started the initial clearance of the regulations that would deal with the domestic content and hope to be able to start the clearance on the regulations dealing with the assessments within the next few days. So it depends on how fast we can get——

Mr. ROSE. So you are working to have the regulation in place by the first of the year?

Mr. FORLINES. That is our intent.

Mr. ROSE. I think we should emphasize—and I know Congressman Baesler would agree with me on that—that really needs to be in place at the first of the year, if at all possible. We may have to talk to the Secretary about that at some point.

Thank you.

Have you got any questions?

Mr. BAESLER. Just a couple.

Mr. Smith, I think it is important for everybody to understand when you talk about under GATT, if the committee suggests there is a problem with the domestic content rule, corrective action will have to be taken. What does that mean?

Mr. SMITH. At the time of the consultation, several trade partners raised questions in terms of whether it was consistent with GATT. And if the United States agrees that those issues should be further discussed and/or the other partners ask for a panel to be formed, then the issues that they have raised as to whether this creates some type of violation of the current GATT rules, then the panel will review these and if the panel finds adversely to the United States, then at that point, it would be up to the U.S. Government to decide whether to take corrective actions or what type of corrective actions might be justified. They are not predetermined in the GATT rules at this point.

Mr. BAESLER. But we can assume that from the Government's standpoint, that we would do everything we can to maintain the—in some way, the import restrictions?

Mr. SMITH. Yes, sir. In terms of the legislation itself, this is law now, and the administration will be implementing this law as it is currently written. The issue of whether it is consistent with GATT

would be an issue that is subject to the determination of the panel at this point.

Mr. ROSE. Will the gentleman yield?

Mr. BAESLER. Yes, sir.

Mr. ROSE. I think that you have put your finger on the big question. And you, and I, and Senator Ford are going to have to make sure that the United States Trade Representative—I am clear that Agriculture is behind us on this—but the United States Trade Representative needs to defend the 75 percent content rule that we got into law, but that he also needs to work to remove import barriers against U.S. growers. And I have a list here I would like to put in the record of import restrictions on U.S. tobacco by country. Turkey, all imports of United States tobacco are controlled by the Turkish tobacco monopoly. Imported cigarettes pay 6 percent ad valorem tax. In Brazil, a 40 percent ad valorem tax. That is for our tobacco to get into these countries. Greece, 23 percent ad valorem import duty; Zimbabwe, prohibited; Bulgaria, 180 percent ad valorem import duty; Malawi, 50 percent ad valorem; Canada, 14.5 to 26.4 ad valorem import duty on unmanufactured tobacco; Argentina, 13 percent ad valorem duty on unmanufactured and 22 percent ad valorem on cigarettes; Thailand, 60 percent; Guatemala, 30 percent; Italy, 23 percent. I mean, talk to us about discrimination now. Mexico, 20 percent; Chile—Mexico has gone up to 50 percent. Chile, 11 percent; Indonesia, 15; China, 50 percent ad valorem import duty on unmanufactured tobacco and 150 percent ad valorem import duty on cigarettes. So, you wonder why our companies are making their own cigarettes in China, but I assume they would have a hard time getting our tobacco in there.

I would like to also put in the record a letter that I signed, along with Senator Wendell Ford, vice chairman of the Tobacco Subcommittee, to Mickey Kantor, the United States Trade Representative the last of September of this year, stating our concern that we have—you and I have just expressed here, and we have had no response yet. We need to have prayer with him about this letter when we get back. [Laughter.]

And then, we wrote the Ambassador to Zimbabwe. The first paragraph of all of these letters is the same—"We are most interested to learn that Zimbabwe has requested informal consultations with the United States concerning recent laws designed to stabilize the United States domestic tobacco program." We sent that because Zimbabwe prohibits imports. We do not really think they are in a particular position to complain. And then, we sent the same letter to the Ambassador for Brazil, pointing out the numbers that I just read to you. Thailand, Colombia—Colombia's Ambassador in Washington; El Salvador's Ambassador in Washington; Guatemala's Ambassador in Washington and Venezuela's Ambassador in Washington.

Now those are not all of the countries that discriminate against us, but they are the countries that have specifically asked for a conference to complain about our domestic content requirement. And I was not worried about their complaints from the first because it is literally "the pot calling the kettle black." But, Congressman, you and I are going to have to make sure that the United States Trade Representative joins USDA in defending us.

Thank you very much, Mr. Smith. I do not have any more questions of you at this time.

[The material follows:]

IMPORT RESTRICTIONS ON U.S. TOBACCO, BY COUNTRY

Turkey (largest exporter to U.S. of unmanufactured tobacco, with duty-free arrival):

- all imports of U.S. tobacco are controlled by the Turkish Tobacco Monopoly, the sole importer and distributor of tobacco and tobacco products (exceptions can be made when private production of any brands reach 2,000 tons per year)
- unmanufactured tobacco imports must pay a "housing fund" assessment of US$2,000 per ton, and an import surcharge of US$5,000 per ton
- imported cigarettes must pay a 5 percent ad valorem import duty, a "housing fund" assessment of US$.016 per pack, an import surcharge of US$0.40 per pack, and several additional taxes for the "price support and stabilization fund" (10 percent of CIF value), the "resource and utilization fund" (1 percent of CIF value), an "import VAT" (12 percent of CIF value), a "defense fund" assessment (120 Turkish Lira per pack), and a "Health, Sport and Education fund" assessment (100 Turkish Lira per pack)

Brazil (2nd, duty-free):

- imposes a 40 percent ad valorem import duty which applies to most unmanufactured tobacco, including burley and flue-cured tobacco
- import licenses are required and issued by MinEcon/DECEX - Foreign Trade Department
- leaf tobacco imports and cigarettes are subject to various taxes and charges. including the import duty mentioned above, an additional "specific duty" for cigarettes, an "industrialized product tax" (which is calculated on an amount which includes the duties), and a state value added tax on imported leaf tobacco of up to 17%

Greece (3rd):

- as a member of the EC, imported U.S. cigarette tobacco is subject to a 23 percent ad valorem import duty (competitors like Brazil and Argentina may import burley and flue-cured tobacco duty free into Greece as GSP countries, subject to an import quota of 15 metric tons for unmanufactured tobacco other than Virginia flue-cured type)

Zimbabwe (4th, duty-free):

- imports of burley and flue-cured tobacco are PROHIBITED
- imports of manufactured tobacco products are PROHIBITED

Bulgaria (5th):

- imposes a 160 percent ad valorem import duty on unmanufactured tobacco and cigarettes
- has "insufficient domestic competition," according to FAS

Malawi (6th, duty-free):

- unmanufactured tobacco to be used in tobacco production in Malawi and imported cigarettes are assessed a 50 percent ad valorem import duty
- permits are required to import tobacco for sale, and such permits may be granted for up to one year; licensees must post a deposit equal to 4 percent of the value of imports; clearing agents must place a 50 percent deposit against customs duties
- the least expensive domestic brand -- Tomtoms -- is exempt from a 50 percent ad valorem excise tax

Canada (7th):

- imposes ad valorem import duties on unmanufactured tobacco for cigarettes ranging from 14.5 percent to 26.4 percent

Argentina (8th, duty-free):

- requires an Argentine tax stamp, which raises the selling price of imported brands above comparable local brands
- imposes a 13 percent ad valorem import duty on unmanufactured tobacco, and a 22 percent ad valorem import duty on cigarettes

Thailand (9th, duty-free):

- the Thailand Tobacco Monopoly controls the import of all tobacco and tobacco products, acting as the sole manufacturer and distributor in Thailand
- import licenses must be obtained for imported leaf tobacco
- a 60 percent ad valoram import duty is assessed on unmanufactured tobacco, and a 30 percent rate is assessed on cigarettes
- imported cigarettes are assessed an excise tax equal to 55 percent of "import cost"

Guatemala (10th, duty-free):

- imposes a 30 percent ad valorem import duty on imported tobacco
- a license from the Ministry of Economy is required to import tobacco

Italy (11th):

- as a member of the EC, imported U.S. cigarette tobacco is subject to a 23 percent ad valorem import duty (competitors like Brazil and Argentina may import burley and flue-cured tobacco duty free into Italy as GSP countries, subject to an import quota of 30 metric tons for unmanufactured tobacco other than Virginia flue-cured type)
- a monopoly exists to control the import and distribution of tobacco and tobacco products
- tolerance levels for MH-30 are in effect for finished tobacco products

Mexico (12th, duty-free):

- a 20 percent ad valorem import duty exists for unmanufactured tobacco and cigarettes
- import permits must be obtained through the Secretariat of Commerce and Industrial Development

Chile (13th, duty-free):

- imposes an 11 percent ad valorem import duty on unmanufactured tobacco and cigarettes (compared to a duty on tobacco from Mexico which will be zero by 1998)

Indonesia (14th, duty-free):

- imposes a 15 percent ad valorem import duty on unmanufactured tobacco, and a 30 percent rate on cigarettes
- minimum retail prices are established by the government for all cigarettes
- a 10 percent value added tax is assessed on imported cigarettes

China (15th):

- imposes a 50 percent ad valorem import duty on unmanufactured tobacco, and a 150 percent ad valorem import duty on cigarettes
- all trade is controlled by the China National Tobacco Import and Export Corporation; some joint ventures are allowed, although they are still limited in the amount they can import by CNTIEC, assessed higher import fees, and required to purchase offsetting amounts of domestic tobacco corresponding to their imports
- any cigarette manufacturer wishing to ship cigarettes to China must agree to purchase Chinese leaf
- the China Animal and Plant Quarantine (CAPQ) currently prohibits tobacco from countries with a history of blue mold
- only designated retail outlets are allowed to sell imported cigarettes
- foreign invested enterprises pay higher taxes on tobacco leaf and cigarettes

WENDELL H. FORD
KENTUCKY

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United States Senate
WASHINGTON, DC 20510-1701

September 27, 1993

The Honorable Michael Kantor
U.S. Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Mr. Ambassador:

We understand that a group of countries exporting tobacco into the United States have requested informal consultations concerning provisions in the Omnibus Budget Reconciliation Act of 1993 designed to stabilize the U.S. domestic tobacco program.

Attached are copies of letters which we forwarded to the Ambassadors of these countries today. Each of these seven countries is eligible to export tobacco to the United States duty free. We believe that for each of these countries -- Brazil, Colombia, El Salvador, Guatemala, Thailand, Venezuela, and Zimbabwe -- there are significant barriers to U.S. tobacco and tobacco products under their own laws and regulations which raise serious questions under GATT. It would seem that these consultations present an excellent opportunity to raise many of our legitimate concerns in these areas.

In addition, we understand that the European Community and the members of the Association of South East Asian Nations will participate in this same process. In light of the excessive import duties maintained by the EC (particularly on cigarettes), and the burdensome tariff levels, licensing requirements, and discriminatory taxes levied by certain ASEAN countries, we believe this consultative process may provide equally important opportunities with these countries as well to put all legitimate concerns on the table.

One of the underlying intentions of the tobacco provisions in the Budget Reconciliation Act was to stabilize the domestic tobacco program, which has been jolted by the recent surge in tobacco imports into this country. A closely related intention was to treat both domestically produced and imported tobacco in an equitable manner. Imported tobacco actually had trade-related advantages over domestically produced tobacco prior to the Budget

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Reconciliation Act. Imported tobacco previously was not subject to an assessment for deficit reduction such as that assessed upon domestic tobacco. Imported tobacco previously was not subject to a "no net cost" assessment. In addition, imported tobacco previously was subject to lower inspection and grading fees than domestic tobacco. All of these conditions are equalized under the recently enacted law, so that imported tobacco is treated equitably, and no undue burden is placed upon trade.

U.S. laws will continue to be more open and our markets more accessible than nearly every trading partner we have in this area. Nearly every major trading partner maintains trade restrictions on U.S. tobacco and tobacco products far more burdensome than any provisions of U.S. law. Therefore, we find it ironic that the provisions in the Omnibus Budget Reconciliation Act of 1993 are now subject to informal consultations. We urge you to take advantage of this important opportunity to make known our serious concerns with tobacco-related import restrictions which exist in these foreign markets.

Sincerely,

The Honorable Wendell H. Ford
U.S. Senator

The Honorable Charlie Rose
U.S. Representative

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United States Senate
WASHINGTON, DC 20510-1701

September 27, 1993

The Honorable Amos Bernard Muvengwa Midzi
Ambassador Extraordinary and
Plenipotentiary
Office of the Embassy
1608 New Hampshire Avenue
Washington, D.C. 20009

Your Excellency:

We were most interested to learn that Zimbabwe has requested informal consultations with the United States concerning provisions in the Omnibus Budget Reconciliation Act of 1993 designed to stabilize the U.S. domestic tobacco program.

The unprecedented surge in imported tobacco over the last two years has threatened the livelihood of tens of thousands of farm families in the United States, and has serious economic consequences for tens of thousands of others involved in the processing, manufacture, distribution and sale of tobacco products.

One of the primary objectives of our domestic tobacco program is to stabilize production levels at no cost to U.S. taxpayers. Without the recently enacted changes to the program, this objective could not be met in the future. Yet even with this increased stability, imported tobacco remains likely to continue at historically high levels.

It is equally apparent that with respect to the trade of tobacco and tobacco products, U.S. laws will continue to be more open and our markets more accessible than nearly every trading partner we have in this area. In 1992, more than three-fourths of all imported tobacco into the United States received duty-free treatment, while many of these same importing countries maintained restrictions on U.S. tobacco ranging from outright prohibitions on U.S. tobacco and tobacco products to excessive duty levels, monopolies which control all tobacco purchases, discriminatory taxes and assessments, restrictive licensing requirements, and other barriers to trade.

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According to the Foreign Agricultural Service, U.S. Department of Agriculture, Zimbabwe maintains the following practices which act as import requirements and restrictions for U.S. tobacco and tobacco products:

** imports of flue-cured and burley tobacco are prohibited

** imports of manufactured tobacco products are prohibited

Therefore, we believe there is much to discuss in the context of informal consultations concerning the trade of tobacco and tobacco products between our two countries. We are hopeful that your actions will have the effect of bringing all matters to light, in the interest of mutually beneficial trading relations between our countries into the future.

Sincerely,

The Honorable Wendell H. Ford
U.S. Senator

The Honorable Charlie Rose
U.S. Representative

cc: The Honorable Michael Kantor

WENDELL H. FORD
KENTUCKY

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United States Senate
WASHINGTON, DC 20510-1701

September 27, 1993

The Honorable H.E. Rubens Ricupero
Ambassador Extraordinary and
Plenipotentiary
Office of the Embassy
3006 Massachusetts Avenue
Washington, D.C. 20008

Your Excellency:

We were most interested to learn that Brazil has requested informal consultations with the United States concerning provisions in the Omnibus Budget Reconciliation Act of 1993 designed to stabilize the U.S. domestic tobacco program.

The unprecedented surge in imported tobacco over the last two years has threatened the livelihood of tens of thousands of farm families in the United States, and has serious economic consequences for tens of thousands of others involved in the processing, manufacture, distribution and sale of tobacco products.

One of the primary objectives of our domestic tobacco program is to stabilize production levels at no cost to U.S. taxpayers. Without the recently enacted changes to the program, this objective could not be met in the future. Yet even with this increased stability, imported tobacco remains likely to continue at historically high levels.

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According to the Foreign Agricultural Service, U.S. Department of Agriculture, Brazil maintains the following practices which act as import requirements and restrictions for U.S. tobacco and tobacco products:

** ad valorem import duties on unmanufactured and manufactured tobacco are as high as forty percent

** imported leaf tobacco is subject to a discriminatory state value added tax ("ICMS")

** imported tobacco is subject to a specific duty (in addition to import duties), an Industrialized Product Tax, and a State Value Added Tax

** import licenses are required through MinEcon/DECEX -- Foreign Trade Department

Therefore, we believe there is much to discuss in the context of informal consultations concerning the trade of tobacco and tobacco products between our two countries. We are hopeful that your actions will have the effect of bringing all matters to light, in the interest of mutually beneficial trading relations between our countries into the future.

Sincerely,

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WENDELL H. FORD
KENTUCKY

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United States Senate
WASHINGTON, DC 20510-1701

September 27, 1993

The Honorable H.E. Birabhongse Kasemsri
Ambassador Extraordinary and
Plenipotentiary
Office of the Embassy
2300 Kalorama Road
Washington, D.C. 20008

Your Excellency:

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According to the Foreign Agricultural Service, U.S. Department of Agriculture, Thailand maintains the following practices which act as import requirements and restrictions for U.S. tobacco and tobacco products:

** import duties of 60 percent or higher are levied on imported tobacco leaf and manufactured tobacco products

** the Thailand Tobacco Monopoly acts as the sole distributor of imported tobacco and tobacco products

** licenses are required for imports of unmanufactured tobacco

** excise taxes on imported cigarettes are calculated from a higher base (based on import cost) than domestic cigarettes (based on factory price)

Therefore, we believe there is much to discuss in the context of informal consultations concerning the trade of tobacco and tobacco products between our two countries. We are hopeful that your actions will have the effect of bringing all matters to light, in the interest of mutually beneficial trading relations between our countries into the future.

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Mr. ROSE. Mr. Forlines, is there anything you would like to add that we have not covered, or do you think we covered it pretty good?

Mr. FORLINES. Pretty good.

Mr. ROSE. Mr. Miller, anything you would like to add that you think we may have missed here in this discussion, or do you think we are doing all right?

Mr. MILLER. I do not have anything to add, Mr. Chairman.

Mr. ROSE. I would like to ask Larry Hopkins, the Director of the Tobacco Division of AMS; the figures that I have been given on the level of imports show that in 1992, imported tobacco screeched skyward and 1993 also. According to what Mr. Smith said, my figures are somewhat out of date. Can you give us an update on the latest bad news about imported tobacco?

One of the things that I think it is very important for the panel to know is that we thank you for bringing out the problem of imports. Our tobacco farmers, both in Kentucky and in North Carolina, are extremely concerned about taxes on cigarettes. Now, I am concerned about that, too. Congressman Baesler and I were at a meeting of tobacco State Congressmen where Bill Natcher got up and said to the companies, "I have never seen imports so big and do not even ask me to help you with the tobacco tax until you agree to do something about imports." Now, they have agreed to do something about imports. It is in the law. We want it in effect as quickly as we can, and we are going to work our hearts out to reduce the tobacco tax.

Mr. Hopkins, on your second page of total imports, 1989—all imports, all types—this is raw tobacco, right?

Mr. HOPKINS. Yes, sir.

Mr. ROSE. Stems, trash, everything?

Mr. HOPKINS. Yes, sir.

Mr. ROSE. In 1989, 189 million pounds; 1990, 206 million pounds; 1991, 277 million pounds; 1992, 462 million pounds. Is that correct?

Mr. HOPKINS. That is correct.

Mr. ROSE. And what is as of September 1993, where are we?

Mr. HOPKINS. We have 457 million pounds in, and I would remind you, Mr. Chairman, that that only represents through September of this year. So we already have 457 million pounds in, with 3 months to go.

So, we obviously are going to exceed——

Mr. ROSE. And all of you, Mr. Smith and Mr. Hopkins. When I wonder why Flue-cured stabilization got so much tobacco this year, all I have to do is look at this number. Mr. Smith, is that an accurate statement, or have I not stated it right?

Mr. SMITH. Certainly, Mr. Chairman, that is one of the causes of the large quantity of tobacco going under loan.

Mr. ROSE. Would you say another factor would be some quality problems with our crop?

Mr. SMITH. Yes, sir.

Mr. ROSE. Flue-cured?

Mr. SMITH. The quality problem with our crop and the changes that are occurring at the time that the crop is being marketed.

Mr. ROSE. In other words, the concern about the tobacco tax and so forth?

Mr. SMITH. Yes, sir.

Mr. ROSE. Mr. Hopkins.

Mr. HOPKINS. Mr. Chairman, if I may add a little bit to what Secretary Smith has said, and in agreement with him.

First, if I could just take a second and thank you, Mr. Chairman and Congressman Baesler for being here. I feel like I am a little bit more than just a casual observer of the situation here and want to say publicly that I appreciate the efforts of both you, Mr. Chairman, and certainly Congressman Baesler on his efforts in Washington because it is not an easy situation in which you find yourself, and I understand that situation more than most. And I can tell you that I certainly appreciate the efforts that you all have put in and I have heard the Secretary say the same thing.

In reference to the crop that we are now experiencing, the Flue-cured, it is not a good year. There is no question about that. We wish that less tobacco was going under loan. We are going to probably be looking at that at the close of this market which should be around November 10, probably 200 million pounds of Flue-cured tobacco, unfortunately, that will go under loan. To give you an idea of what that means, last year, there was approximately 70 million pounds of Flue-cured tobacco that went under loan.

Mr. ROSE. And, of course, the problem with the high stabilization stocks is what that does, because of our formulas, to next year's quota?

Mr. HOPKINS. Yes, sir.

Mr. ROSE. And since we have the 10 percent rule for Burley and Flue-cured, we have a degree of protection while the companies get rid of all of this wonderful foreign tobacco that they bought, is that right?

Mr. HOPKINS. That is correct.

Mr. ROSE. All right.

Mr. HOPKINS. And people need to understand that they should be thanking you for putting in the 10 percent, those of you who did that, this year. Because without that protection—I do not know what——

Mr. ROSE. The companies—and I do not blame them—the companies are rightfully preoccupying our farmers with being concerned about the tobacco tax. I have never seen farmers upset when the companies raise their wholesale prices of cigarettes, you understand. I have never seen the companies have a farmer rally to object to their raising of wholesale tobacco prices, you understand. I told the companies, "You all forgot to tell the farmers that a wholesale price increase in cigarettes has exactly the same effect as a tax increase." The only difference is who gets the hooch, OK? Wholesale prices go into the bottom line of the tobacco companies; tobacco tax increases go to the State or Federal Government.

Now, I am not in favor of the tax increases. Do not get me wrong. And the business community has a right to make their own business judgments about what they are doing, but they have used our farmers a bit in this regard and they very much used us because in 1986, Mr. Hopkins, when you and I were serving together in the House and allowed the Tobacco Reform Act of 1986 to go through,

they promised us—and I believe you will remember—they promised us they would stop importing foreign tobacco.

Mr. HOPKINS. That was, as you suggested, a promise and a handshake.

Mr. ROSE. Yes, sir.

Mr. HOPKINS. It was not written, but it was a promise that they made.

Mr. ROSE. Yes, sir. They forgot to remember. [Laughter.]

Thank you.

Mr. Baesler.

Mr. BAESLER. Larry, let us get to Burley. I think the figures on your second sheet show that as of September 1993, there has already been 198 million pounds of Burley imported, is that correct?

Mr. HOPKINS. That is correct.

Mr. BAESLER. Last year—I forgot exactly, maybe Mr. Smith or you one—how much did we take into the pool last year? Well over 100 million pounds, was it not?

Mr. SNELL. 142 million pounds.

Mr. BAESLER. 142 million. So, what we are looking at this year, not knowing yet what to expect from our crop on quality, do you all have any estimates? I know you have fears, like we do. What are we looking at for the silent bidder? What are we looking at going into the pool? Have we got any ideas? What is our estimate? Have you got any estimates?

Mr. HOPKINS. Mr. Baesler, I wish I had an answer for you on that. We will just have to wait and see what the desire is of the marketplace. I can only tell you what has happened as far as Flue-cured is concerned. We will be opening up the market here, as you know, on November 22 and closing it for Christmas on December 16, and then reopening it again on January 4.

With me today—and I appreciate your allowing him to attend—is Mr. Lawrence Newman, who is the regional director here. He is in charge of all of our graders in this area. He will be watching that very closely. But at this time, I do not know anybody who really would be able to give you a factual estimate as to what they think is going to happen.

Mr. BAESLER. I think we could probably be concerned—if we have another hit like—for instance, the Flue-cured has had over 2½ times more going into the pool this year than they did last year. And some of that might be for quality because they had a much larger drought—extensive drought than we did. But the 140 million we had last time—in fact, Mr. Snell might know more about this than anybody, too—we cannot stand another 140 million pounds—100 to 200 million.

What would happen? Basically, we are going to push down our quotas because we have this 10 percent protection for 1 year, which is great. But what could happen without that 10 percent protection? If the companies do not market—what I am getting at is we have to emphasize from our perspective, it is very important that the companies not take a hike. They have to buy this tobacco this year and not let the Government buy it. And we are going to get into that a little bit later. I think, Mr. Smith, you have talked about it.

My concern is, if for whatever reason, the companies want to take a hike and say, well, we have already got 200 million pounds from Burley. We do not need any more. We do not have many friends in the companies if they do that. They are putting the screws to us. That is my opinion. What is your estimation? You do not have to respond to whether the companies are putting the screws to us or not, but the point is, what could happen? [Laughter.]

Mr. BAESLER. Mr. Smith, maybe you first.

Mr. SMITH. Congressman Baesler, if we should get larger quantities of tobacco in the loan and we are attempting to sell that tobacco back out of the loan, one of the realities of the current tobacco program is that with a no-net cost program and if we have to incur reductions in price in order to sell the loan stocks, then not only are we competing with perhaps future crops that may be marketed, but we are selling that tobacco at a discount and the cost of those discounts are then later passed on to the growers and the buyers through additional no-net cost assessment. So it is one of those problems where that excess stocks with a no-net cost program cannot only affect the size of the quota for the following year, but it also can affect the no-net cost assessments.

Mr. BAESLER. So basically, the farmers in this little triangle have a problem. One, if the companies do not buy our tobacco this November from Burley and we send a lot more to the pool, that is a factor that would help decrease our quotas.

Mr. SMITH. Yes, sir.

Mr. BAESLER. Two, it also would not only help decrease our quotas, it means we might have to pay more no-net cost.

Mr. SMITH. That is correct.

Mr. BAESLER. Three, if we cannot get the imports down—which goes back to the first question—if we do not fight for making sure this restricts imports, then the imports themselves will keep on—could go on up over the 198 million, on up—that will push us down.

Mr. SMITH. That is correct. It lowers that part of the formula on the domestic use side.

Mr. BAESLER. So for all of the things the factor pushes down, and we have not had anything—the only thing that could possibly go up is imports. And we found, as Chairman Rose has talked about, if we do not get some relief from all of these restrictions these people have on us, we are increasing somewhat, but not that much, I do not think—I mean exports, that is—exports.

Mr. SMITH. Yes, sir. The export side of our market is the brightest side of the market in that we have made some in-roads through our international trade into markets that historically have not been open to us. Turkey was mentioned earlier. We have increased there from zero exports up to over $200 million by exporting our technology into Turkey through some cooperative programs—market promotion programs which the growers participate in.

And so, to the extent that we can continue to open our foreign markets, it has been the only part of the tobacco program that has been on the upswing.

Mr. BAESLER. And so, what we are faced with starting in 2 or 3 months is the crucial question; the company is either going to

buy or not buy. If they let the Government buy, we are not going to be benefited tremendously by that.

Mr. SMITH. That is right, yes, sir.

Mr. BAESLER. And maybe we can get some idea on the quality about what are they are looking for. We will have company representatives talking later, but I would rather talk to somebody that is grading it.

Mr. NEWMAN. I really do not have any idea of what the companies are looking for.

Mr. BAESLER. What are you looking for?

Mr. NEWMAN. Well, we are looking for a good ripe crop of tobacco out there and we think that is what we have; and if it is, it will grade pretty well. So the farmers maybe will not be hurting too badly if some of them go to the co-op—so they will have a good price support on it.

Mr. BAESLER. You sound like a politician. You just said good and not one word—you did not say about what he was looking for. But you just do not really know right now, is that what you are saying?

Mr. NEWMAN. No. We have not been out to look at any tobacco yet. All I get is reports coming in to the office.

Mr. BAESLER. Thank you, Mr. Chairman.

Mr. ROSE. I thank you all very much for your testimony.

Next is Dr. Snell, the assistant extension professor, department of ag economics at the University of Kentucky, in whose building we are speaking. If you will go ahead, sir.

STATEMENT OF WILLIAM M. SNELL, ASSISTANT EXTENSION PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF KENTUCKY

Mr. SNELL. Thank you, Chairman Rose. It is certainly a pleasure and an honor for me to address the subcommittee.

In my position at the University of Kentucky, I work primarily with farmers, farm groups and our State and National Legislators on tobacco policy, marketing and trade issues. This morning, I would like to address the subcommittee on some of my viewpoints on some changes in Washington. The potential changes that might be coming about and how that is going to affect our tobacco growers in the State of Kentucky. More specifically, I would like to talk a little bit about the domestic content legislation, the excise tax issue and just some brief observations on the 1993 outlook for the Burley crop.

I was involved with a lot of the farm groups in the discussion on the domestic content legislation. Although at this point there is certainly a lot of debate among the farm groups and the industry personnel about the eventual outcome of this legislation, I think there is no doubt in my mind that without this particular piece of legislation, that we would be looking certainly at a much more depressed market situation than we are looking for in 1993. We would be looking at Burley tobacco quota cuts of 20 percent or greater for 1994. And I think we would be looking at imports accounting for 35 to 40 percent of all of the Burley tobacco manufactured in this country.

While I agree with Secretary Smith that certainly this legislation does cause a lot of concern for us in the export market, I think here

in the short-term that there is no doubt that the potential gains that we can have from this legislation in the domestic market will outweigh the losses in the export market, again, in the short-term and only if we look at the losses in the export market that would be attributable to the domestic content legislation.

Let us keep in mind in all of this—throughout all of this debate that probably our leaf exports and perhaps our cigarette export growth is going to be curtailed with or without this legislation. Right now, we are looking at a situation where we have tremendous excess supplies of Burley and Flue-cured tobacco throughout the world market. And there is no doubt, again, without this legislation, we would probably be in a situation where these leaf exports would be declining even without the domestic content legislation.

The main question is, has this legislation accelerated the trends in terms of declines in terms of exports? And the answer to this is going to depend a lot upon our degree of price competition here in the short- and mid-term. It is going to be a very challenging environment. I think there is no doubt that if you look at our price support formula, that is probably going to continue to cause some modest increases in Burley and Flue-cured price supports, while at the same time, the excess supply situation in the world market is going to continue to cause world Burley and world Flue-cured prices to fall. So it is going to put a lot of pressure, I feel, Mr. Chairman, on our farm groups to address this price competitiveness issue here in the near future as we try to minimize the decline in exports.

I would like to say a few comments on the excise tax situation. Certainly, it is a major threat here in Kentucky and throughout the Burley and Flue-cured Belts. By my calculations, a 75 cents per-pack increase in the tax on cigarettes will cost Kentucky Burley growers some 30 to 50 million pounds, valued at some $50 million to $90 million. And really, that is not the total story. As we all know, with increases in the Federal excise tax, there is certainly going to be a lot of pressure of State governments to increase the excise tax in order to keep their tobacco tax revenue base from falling amidst some very large potential declines in cigarette consumption. So overall, I think when you take into account these State and Federal potential increases in excise tax, Congressman Baesler, we could be talking about an additional 15 to 20 percent or more decline in Kentucky Burley tobacco quota base just due to the tax effects alone.

When you consider the fact that the tobacco dollar in many of our rural communities of Kentucky rolls over three to four times, obviously, this could have a very devastating impact as tobacco in many of our counties accounts for more than 50 percent of the net farm income and contributes to the local economic base in terms of sales of goods and services, property values, and our local tax bases.

Finally, I would like to just give you a few of my viewpoints on what I expect from this year's crop. We have already heard some of the factors that are adversely affecting the Flue-cured crop. And I think there is no doubt that the excise tax situation, the uncertainty on the domestic content legislation and the excess supply situation of tobacco in the world market are going to adversely affect

the Burley market also. But I think we have a much better quality crop than you all have experienced in the Flue-cured Belt and I think this—I agree with Mr. Newman that this is probably going to result in our tobacco probably receiving a lot better grades compared to the Flue-cured crop.

But overall, despite a good quality crop that we are expecting, I would not be surprised if we did not have more than 100 million pounds to go under loan and I have heard some people indicating it might go as high as 150 million or greater this year. So obviously, our price supports are going to be very important in terms of the farmer, and we did have an increase in the average price support this year. If you look at the distribution of grades, about 60 percent of the grades that we typically market in a given year will have a price support of $1.80 or greater. So, that tells me that while we probably will have a significant amount of tobacco to go under loan, that our farmers will be protected somewhat by the safety net and that our market prices should be fairly similar to what we had last year.

I agree with Mr. Smith that we are probably looking at a 10 percent cut in Burley quotas for 1994. And as we slowly work off the world Burley excess supply situation, we potentially could have another cut in 1995. There is no doubt that farmers and farm leaders throughout this State are very concerned about this situation, given that tobacco accounts for about one out of every four dollars of agricultural cash income in the State.

In response to this situation, I know that a lot of our farmers that we work with here at the university in our farm groups are looking at diversification strategies. We have a lot of problems on that end, due to the fact that we have a lot of price and income instability with some of these diversification schemes, plus we have, at this point, what I consider a very inadequate infrastructure system to support some of those diversification schemes.

So my final comment is that as I travel the State and work with the farm groups and work with the farmers, that there are still a lot of farmers in this State who probably are going to try to weather out the storm on a commodity whose future depends more on what happens in Washington, DC, than on traditional economic forces. And that is basically what I would like to present to the subcommittee.

And again, I certainly appreciate the opportunity and would be glad to respond to any questions.

[The prepared statement of Mr. Snell appears at the conclusion of the hearing.]

Mr. ROSE. It has occurred to me while I have been sitting here that you are way ahead of me, sir, in having this hearing in your district, and I am going to have to go back home. So you all can expect an invitation from me to come to North Carolina to do what—you always learn, you know, from keeping up with these new Congressmen. And this is the right message for you all to be hearing right now from these people because they are certainly in charge of this program. These are the people that run the tobacco program. I feel very lucky that Larry Hopkins is where he is and he knows Kentucky. Scotty and I know that we are going to keep him on in that job as long as we can. You keep looking after our

farmers and we will keep you there for—you will be there forever, sir. [Laughter.]

Until you are ready to run for something else or whatever you would like to do. [Laughter.]

Mr. BAESLER. Just do not make it Congress right now.

Mr. ROSE. Just not Congress. [Laughter.]

I have been out here so many times with Mr. Hopkins, I am scared to count. But, Larry, we love you.

Mr. HOPKINS. Thank you.

Mr. ROSE. Now, Secretary Smith is from one of the counties in my district. I do not happen to have the part of it his folks live in right now. But, Columbus County is one of the bedrock counties of the Seventh District. So, Scotty, we ought to feel pretty comfortable with what we have here.

Yes, sir; Mr. Hopkins.

Mr. HOPKINS. Mr. Chairman, let me emphasize what Congressman Baesler was talking about. As bleak as this looks sometimes, there is always some good news, and I think that the exports probably hold a bright future for this crop. China, which you already accurately mentioned, with their ad valorem of 50 percent; we need to continuously remind ourselves that they have over 1 billion people there, and 300 million of them consume tobacco. Yet, we only get in less than one-tenth of 1 percent of our commodity in there. So there is a lot of work that can be done out there and a lot of promise, I think, that the future holds for exports. But again, Charlie and Scotty, I appreciate the opportunity to be here with you.

Mr. ROSE. Thank you all very much. We will excuse you at this time.

I would like to call our second panel at this time, and I would like to add a new member to the second panel who has a tight traveling schedule. Our second panel is Mr. John Berry, Jr., the president of the Burley Tobacco Growers Cooperative Association, New Castle, Kentucky, accompanied by Danny McKinney; Mr. William Sprague, the president of the Kentucky Farm Bureau Federation, Louisville, Kentucky, accompanied by Marshall Coyle, the second vice president. And then, I would like to ask Charlie Whitley, who is a former Congressman and served with me for many years on the Tobacco Subcommittee and senior to me in the Congress, Congressman Charlie Whitley, a senior consultant with the Tobacco Institute in Washington, DC; Mr. John Fritz, Jr., tobacco farmer from Nicholasville, Kentucky; and Mrs. Mattie Mack, tobacco farmer from Brandenburg, Kentucky.

Thank you all very much for being here. We are delighted to be in your State. And I understand Mr. Danny McKinney will make comments for Burley Grower Co-op president, John Berry.

Mr. McKinney.

STATEMENT OF DANNY McKINNEY ON BEHALF OF THE BURLEY TOBACCO GROWERS COOPERATIVE ASSOCIATION

Mr. MCKINNEY. Thank you, Mr. Chairman and Congressman Baesler. Thank you both for being here today and the opportunity for us to get together to discuss this very important issue. Mr. Berry is tied up in court today from a case that was carried over, so he will not be able to attend. I want to talk just a moment about

what is going on over at the Burley Co-op and to back up and give just a little bit of history.

First of all, a subject that came up this week in our office, and that is that we process all of the tobacco for the Burley Co-op right here in Kentucky. And we will keep trying to do that as long as possible because we want to keep those jobs in Kentucky. We have four processors in the State and we use them all. Looking at the predictions for the crop this year, somewhere along the line, we may have to, as we say, "go across the mountain" to process some tobacco. But we want to keep that tobacco processed here in Kentucky and stored here as long as we can.

I am not going to go through a lot of figures, but I want to mention some important ones as to what is going on with the co-op. The 1992 crop, we have it stored at the present, we did something a little different on it, and that was that we sold all of the stems, the scrap and the fiber from the 1992 crop. We got to thinking that all of these imports keep going up and up, and to a great extent, those are stems. Why in the heck are we storing our stems? So we did something for the first time ever this year, and we put those up for bid and sold them for about three times what we were actually expecting. So we felt real good about that.

We have about 87 million pounds of processed tobacco from the 1992 crop stored. It is worth about $220 million or so. The 1991 crop, 27 million pounds and we still have a little bit of 1988. The 1987 crop, we sold all of it back in July, I think it was. And we had held on to it for a long time, and we finally decided that we would have to offer it for bids. We did so and received what we thought were very good prices for that tobacco.

I want to talk for just a moment about the sales from the co-op. We sold the 1992 stems, scrap and fiber. The 1991 crop, we have not sold any. The 1990 crop—of course, in that year, we did not take any tobacco under loan. The 1989 crop—and you will notice, we keep all of these crop years separate—the 1989 crop, we only took in 400,000 pounds and we resold it without processing it. The 1988 crop, we have sold 4½ million pounds out of that one. And the 1987 crop has all been sold, as I mentioned. I know you are not going to remember all of these figures, but the point I want to make is that though we are taking tobacco in, we are able to move some out.

The pool take over the past 5 years—and I want to run over it real quick—1992 was 142 million pounds farm weight; 1991, 43 million; 1989–1990, virtually none; 1988, 15 million pounds; in 1987, going back 6 years, we took in 90 million pounds.

While those figures may not mean a whole lot, if you total them up, you are talking about on hand right now 119 million pounds of processed tobacco. If we look back to years 1981, 1982, and 1983, we took in over 500 million pounds back during that time. And because of some efforts of Congressman Rose and Congressman Hopkins and others that worked on our behalf, we were able to get some legislation and that tobacco has all been sold. I know Fluecured stabilization at one time had 11 years of tobacco on hand. And right now, we are only looking at 3 years. So we are not in too bad a shape as far as that goes.

We are not real concerned with our level right now, and I am not even so concerned when we talk about receiving 150 million pounds under loan this year. I would certainly like to take less. What really concerns me is when we have 142 million last year, 142 million this coming year, and what if we should come up with a year like 1983 with a crop that is very undesirable and really took a big load—250 to 300 million pounds? That is the scary part. So we are bumping the top right now as far as the comfort zone goes.

I will stop with that and would be glad to answer other questions later.

Mr. BAESLER. The question I have, Danny, when you say you sold it, who did you sell it to and for how much?

Mr. MCKINNEY. We priced this tobacco based upon what we paid for the tobacco—what the farmer received for it, the expense—all of the expenses that we have in the tobacco. And every month, we send out an inventory list, or at least on a periodic basis. We send these inventory and price lists out to all potential buyers. We have a mailing list of something over 100 entities that we send this to. And we have people working on our behalf in an office in Washington, the Burley Association, trying to work on exports. And while we do not sell directly on the export market, we have people there working on our behalf. And then, we sell this tobacco to the dealers and/or manufacturers.

Mr. BAESLER. So basically, do we sell the tobacco to the same people that buy it at our markets?

Mr. MCKINNEY. That is right.

Mr. BAESLER. So let us assume that—I do not want to get into a lot of figures, but if you had the 1990—1988 crop that we still—you said you sold the 1992 crop or something. They could have bought it at the warehouse for $1.80 that we are talking about, but what can they buy it for when they buy it back from you after the pool? My concern is, if you let it go through the warehouse and you do not buy it, just wait to get it back a second time around, you are selling to the same people. So what is really the difference in the price? The farmer is making up this difference, we need to—we understand.

Mr. MCKINNEY. We have a question posed to us quite often. Are the companies just letting the pool take it and are they coming back later to get it at a discount? And that—to me, that does not happen.

First of all, we have to hire an outsider or a contractor to process this tobacco for us. They can process it cheaper than we can. And I am saying the manufacturer or that dealer that wants to buy it off that warehouse floor. He can do all of those things cheaper than we can since we are not owners of the facility. When we get through, we charge him for everything that we have in that tobacco, plus a very small administrative fee.

Like all businesses, you can only inventory so much for your own use. And so, they can come back to our general store somewhere down the road and we have tobacco for them to pick from. Their wants and needs may change 1 year from now, 2 years from now, and they can come to our inventories and pick some tobacco that they did not know they needed 2 years ago.

Mr. BAESLER. One thing I would like if you could provide—I know you do not have it today—I would like to have provided to my office the prices paid for the inventory tobacco that you had from the dealers, what they paid to get it. As far back as 1987—previous to that is no concern. I think you have the grade, the price that they paid, and I think we would have available to us the support price that was on the grade on the warehouse floor the day it was sold. Because I think we need to answer the question very clearly to people, farmers, especially in light of what might happen. Our worry this year is that nobody is waiting to come through the back door to buy this tobacco because even though the farmer gives his or her $1.80—this no-net cost thing here, the difference is, the farmer picks it up, so it is not a free ride. I think it is very important to find out the history of what the resold tobacco brought and how much discount actually the company came in or whoever bought it got because they waited.

Mr. MCKINNEY. At this time, maybe it is a good time to back up and talk about the no-net program and how that is affected when we sell tobacco. We have heard several comments this morning about no-net doing this, going up. Most farmers, like myself, recognize that you pay a no-net fee of 1 penny, but what the heck is that?

And real quickly, when the farmer takes his tobacco to the warehouse floor and displays it and it is graded, there is a support price that will go with that particular grade. If the manufacturer or dealer is willing to pay at least a penny above that support price, of course, the manufacturer takes it home with him. If not, then it goes to the pool—goes to the co-op. That farmer gets paid that day just the same as if one of the manufacturers or dealers bought it. We take it, we process it, we store it, and somewhere down the road, we hope to sell the tobacco. When we sell that tobacco, then we back up and we pay off a loan that we received at the time that that farmer got his money. When we go through this season and we have paid these warehousemen $200 to $300 million for this tobacco this year, our co-op does not have that kind of money, so we go to the Commodity Credit Corporation and borrow the funds. Once we have done that, we will pay them back—when we sell the tobacco, we will pay them back with interest.

Now, what happens if we come up and have to discount a crop, just like we did in 1987, particularly in July? We sold that tobacco at less than what we had invested. In order to do that and in order to be able to pay that loan off, then we go to the no-net cost fund and pull some money out of it to finish paying off the Commodity Credit Corporation. And that way, it is a no-net cost to the taxpayers out here.

Fortunately, our cooperative here in Lexington has only used $1.2 million of that no-net funds in the past 10 years or so. Now, Flue-cured stabilization has a little different philosophy. They use quite a bit of money. They may use $15 to $20 million of it, but they bring it in and turn it over. We just happen to operate on a different policy.

When we have to go to that no-net fund, and let us say instead of using $1 million or so, what if we had gone to it last year and used $20 million out of it? Then, this year, instead of that farmer

paying 1 penny a pound on his tobacco, he may have had to pay 5, 6 or 8 cents or whatever. So that no-net fund is there to scotch for these loans, but it is not to be used recklessly and at the same time, we want to protect that thing for down the road.

Mr. BAESLER. I think the point we have to emphasize to the farmer is that we are still responsible for the 1988 crop or 1987 crop or 1986 crop. So, if we do not scotch it, we could still look to go back in and have to pay no-net cost. So, we do not ever leave that.

Mr. MCKINNEY. That is right.

Mr. BAESLER. And a lot of times—it is not a 1-year thing.

I will shut up now, Charlie.

Mr. ROSE. No, you brought out some very good points, and I want to compliment you, Mr. McKinney, on what you pointed out was a difference in philosophy between the Burley Tobacco Growers Co-op Association and the Flue-cured. You are right, the Flue–Cured Association has done more discounting, rolling over more of that money. You and John Berry have taken the position that that money belongs to the farmers and it should be very carefully used. And I compliment you for that because once you go down that road of quickly discounting to move the tobacco out of stabilization, the companies get used to that and they expect you to be a discount shop from then on. And what you all do is save your bullets for the real battles, and I compliment you for that.

I do not have any other comment, except do you have any more of that wonderful 1983 crop around? [Laughter.]

Mr. MCKINNEY. No, but I would say some of the manufacturers might still have some. [Laughter.]

Mr. ROSE. Well, they got it at a bargain.

I am going to recognize the president of the Kentucky Farm Bureau Federation, and then Charlie Whitley and let him catch his plane. Mr. William R. Sprague is the president of the Kentucky Farm Bureau Federation, Louisville, Kentucky, and he is accompanied by Mr. Marshall Coyle, the second vice president.

It is good to see you both again. Mr. Sprague, we are happy to hear from you.

STATEMENT OF WILLIAM R. SPRAGUE, PRESIDENT, KENTUCKY FARM BUREAU FEDERATION, ACCOMPANIED BY MARSHALL COYLE, SECOND VICE PRESIDENT

Mr. SPRAGUE. Thank you, Congressman Rose. We are very pleased that you could take the time from your busy schedule to come to Lexington to visit the bluegrass area. We think it is right fitting that you would come here to Lexington in the heart of the Burley country and also to come at a time when you can think about the best basketball team in the Nation, too. [Laughter.]

Mr. ROSE. Carolina?

Mr. SPRAGUE. We are starting practice tonight, so we are getting ready for that.

But we want to thank you in particular for the fine work that you, along with Senator Ford and the whole Kentucky delegation, Congressman Baesler, in particular, for the work you did on the import legislation. We know what an uphill battle that was and how difficult and how astute you fellows were in working that

through and we want to thank you very much for that. We are quite proud of our whole Kentucky delegation and the work that they do. I know you are equally proud of your North Carolina folks, but we in Kentucky are quite privileged to have had Larry Hopkins serve on your subcommittee and now, Congressman Baesler, who has hit the ground running representing the farm interests of our State, and we do appreciate that very much.

I will say that we are very concerned about this import legislation and especially looking forward to seeing how the guidelines are going to be prepared on how it is going to be implemented. I think the growers of this State are very interested in seeing that the intent of that legislation is carried out to its fullest, and we hope you do hold those prayer meetings right regularly with appropriate people to get that word across.

But then, I would also say that we as growers realize this is a short-term fix, that this is not the answer to our problem. And we would seek any solution, especially from the companies or other—especially opening up some dialog on how we can sell more tobacco in these other countries. I think we have a big task ahead of us to do just that.

I think I would like to spend just a few minutes preaching to the choir again here. I think we in Kentucky sometimes forget just how important tobacco is to our economy. And I think the figures have been brought out here to show just what an important asset that is to the whole State of Kentucky. I think what we tend to forget is that when you get from the total figures, what it really amounts to is the 61,000 tobacco farmers that are highly and almost totally dependent upon a tobacco income for their stability in agriculture. And I think people tend to forget that when we talk about making these cuts or this cut or this cut. When it gets to the individual lives of our farm and our families that are affected, and we as a grower organization are very much concerned about that.

We are just devastated by the fact of what this 75 cent tobacco tax can do to our Burley growers, and then added to the insult of the nonsmoking tobacco taxes that were added were just outrageous—some of those increases up to 10,000-percent increase—just unreal. And it is going to have a—just an almost disaster on our farmers in our western part of the State that raise dark tobacco for the snuff and the other nonsmoke-type tobacco.

So we know we are preaching to the wrong people here, but we want to encourage you to fight that with all of your might. We have to have some relief in that area, or else it is going to have such a devastating effect on Kentucky's agriculture that it is going to be very difficult to overcome.

I think several items have been mentioned about alternative crops. We here in Kentucky have worked very hard, especially at this time, with an Ag 2000 project where we are trying to look for other alternatives to increase our agricultural income mainly to supplement our tobacco crops and to help our farmers to survive in these difficult times. So we are striving. We are working very hard to find those answers and to come up with some solutions to help us.

I think if you look at our farming operations in Kentucky, the size of our farms, our culture, our climate, Burley tobacco is what

we do best. We feel like we can compete with anyone in the world on the quality and quantity of Burley tobacco and we feel strongly that we should be able to do this without big Uncle Sam putting the clamps on us to literally destroy our industry. And we feel that is what this is. It is a tax. It is being used as an excuse to raise money for health care, but when you look into all of what is going to happen with this tax—the decrease in consumption, the loss that is going to come about from this, the U.S. Government is, at the best, going to only receive about one-half of these taxes that they are thinking they are going to receive from this increase. And how that is going to made up at the local and State levels are going to be very, very difficult for everyone concerned.

So we in the Kentucky Farm Bureau Federation are set to work in every possible way that we can to help to lower this tax, to defeat it. We were quite proud that the American Farm Bureau Federation is taking a stand opposing these higher taxes. They are going to be working in their delegations to help get some friends for you on this issue. I know when you count the purely tobacco votes, the number is fewer and fewer all of the time. So hopefully, we can get some allies in this industry, in the whole tobacco industry, to help us fight this tax and to pull it back into something that we can reasonably live with without completely destroying our industry.

So we want to thank you for your fight and your help in this issue and offer our support that we are there to help you in any way we can to get this rolled back as much as we possibly can.

Mr. ROSE. Thank you very much.

Following right behind you is a man of similar thinking, and that is Charlie Whitley, senior consultant, Tobacco Institute, Washington, DC.

Charlie, we are glad to have you and we will be happy to hear from you.

STATEMENT OF CHARLIE WHITLEY, SENIOR CONSULTANT, TOBACCO INSTITUTE

Mr. WHITLEY. Thank you, Mr. Chairman. It has been a privilege over the years to serve with you, with former Congressman Larry Hopkins; his predecessor, John Breckenridge, on the House Agriculture Committee. We have all fought a lot of tobacco battles. Like you, this is not the first time I have been in this auditorium at a tobacco hearing.

For the past 7 years, I have served as senior consultant to the Tobacco Institute in Washington. That is the trade association for most of the major cigarette manufacturers. So officially, I am here as a representative of those companies. I am not trying to repudiate or disclaim that relationship, but I will just tell you that my wife and her brother still own their family tobacco farm. It has been in their family since 1938. I have worked on that farm, we got our rent from it last week. And she never fails to tell me every weekend when I go home to North Carolina, if you lose that tobacco program, we will not get enough rent off that farm to pay the taxes, and that is right.

So, I am in the tobacco growing business. I served in Congress representing the district in North Carolina that grew more leaf to-

bacco than any other district in the country. So I hope that you all realize that while I now speak as a representative of the cigarette manufacturers, that I have a long interest and a long history in leaf tobacco.

Having said that, Mr. Chairman, I will never forget the day you and I walked off the House floor in Washington after having been successful in defeating an amendment offered by a gentleman named Simanski that would have totally abolished the tobacco program. And you talk about two guys looking like whipped dogs——

Mr. ROSE. That was 1982.

Mr. WHITLEY. But we had won the battle. And you have been in Washington now—this is your 21st year in the Congress. But I bet you do not remember a tougher fight than that one.

And you also can remember a little more recently than that when we really were worried about losing our whole program. And the reason was that the price support formula at that time just automatically ratcheted up and we had gotten to the point where our stabilization stopped. Do you remember that, Danny? Both in Burley and Flue-cured, it had just gotten up to dangerous levels and we were threatened with the loss of the whole program and we traveled all over the Southeastern United States and held a lot of field hearings. And we thrashed that thing out and we came up with the no-net cost program. That is not a perfect program. I do not think there is a perfect program. I was interested in hearing Mr. Sprague say that he realized that the domestic content law is a temporary stopgap measure. We in the institute did not have any involvement in that. Our member companies did as such; we did not, except our lawyers a little bit, but—and I am not prepared to comment in depth on that one way or another.

But I do want to say this, and Mr. Chairman, I want to defend the companies a little bit. You mentioned the difference between a price support and a tax increase. I think there are three big differences in a price increase by a company and an increase in excise tax. The first one is—and you noted that—a price increase goes to the company. It goes to the company and the stockholders and helps the companies to promote and advertise and sell their product and helps them to pay the growers a good, decent price for their crop and helps them to do the things and enable them to sell tobacco. An excise tax goes to the Federal Government. It does not do those things.

The other thing is that it has been a good while now since we had a one-price cigarette market out there. A lower income smoker who decides that he cannot afford to pay the price for premium cigarette brands can buy a discount brand for less than half the price of a premium brand. We have gotten into pretty serious price competition now, and as a result of that, the people who are affected by the high cost of cigarettes have already gotten down. If you add 75 cents a pack, it goes on across the board, not just on the $2 premium brand, but on the $1 discount brand. And the low-income smoker who said OK, I cannot afford $2, and has gone down to $1, you put on 75 cents, he is going back up to $1.75. And the companies are generally suggesting that—the companies would not need to really increase the price, they could absorb that.

Well, in the Wall Street Journal just this past week, they reported that Phillip Morris' biggest cigarette manufacturers, their net profits had dropped 25 percent in the third quarter. RJR's earnings in the third quarter fell 58 percent. And you know, Mr. Chairman, down in Winston-Salem, they are having some pretty severe cuts at RJR.

So the companies, while they are still profitable—and those two big ones are big multinational conglomerates, but still, they are having a very severe loss of profits. And so, they really certainly are not going to be in a position to absorb a big tax increase and let it just come out of profits. So the companies are not just crying wolf when they say to you that their sales are going to be drastically affected by an excise tax increase of anything like this magnitude.

We had Price Waterhouse—which I guess is about the most reputable statistical accounting and economic firm in the Nation—to do a survey and determine for us as best they could what the economic loss would be nationwide and statewide on a 75 cent excise tax increase. In the United States, they estimated a total loss of 273,000 jobs. This is in the core sector and in the retail trade, dealers—everything across the board—all of the ripple effect in tobacco. They estimated national economic losses in excess of $8 billion. In the State of Kentucky, they came up with a figure of 16,500 loss in jobs and $313 million in payroll losses. That is not our numbers; that is Price Waterhouse numbers. So, the threat of what a 75 cent excise tax will do for us is very real.

Let me say this, I think just a general proposition. I think it is an honest statement—and Randy Harrison from B&W, I believe is going to testify in a little while—I think it is an honest statement to say that the American cigarette manufacturers, for a variety of reasons, want to buy and use American tobacco in their manufacture of cigarette products. There are many reasons for that. The quality is unmatched. It is a dependable supply. The political relationship is important. There are a lot of reasons why the companies want to buy American tobacco.

It has been mentioned by other witnesses and maybe by those who follow me that all of us can see a shrinking domestic cigarette market. When the first Surgeon General's report on smoking and health came out in 1964, Dr. Luther Terry was Surgeon General in the Kennedy administration, about 56 percent of adult Americans smoked cigarettes. Today, it is down to 26 percent. In a little less than 30 years, the consumption of cigarettes by American adults has dropped by 30 percent, but it has not been a steady decline of 1 percent a year. In the last 10 years, the decline has been at the rate of 2 to 3 percent a year.

With the threatened increase in excise taxes, with all of the regulations that we are getting now at every level of government and in the private sector, placing more, more and more restrictions on indoor smoking, with all of the antismoking groups being better organized than ever, better coordinated than ever, better financed than ever—with public funds in many instances. We have had States like Massachusetts and California that have increased the excise tax and earmarked the proceeds for antismoking education and other activities. And the Federal Government has various pro-

grams where they are doing the same kind of thing, not only disseminating information, but actually things like Operation Assist. They are putting out money to local groups they are using to lobby local governments.

Mr. ROSE. Go ahead.

Mr. SPRAGUE. That is the kind of thing we are up against, and I think—we can assume that the domestic market will shrink. That means the future is overseas. The future of tobacco is overseas. If our companies are going to continue to make a profit, that is where they are going to have to make it. In the long run, if American leaf is going to continue to be a profitable commodity for you to grow, that is where it is going to have to go, so I think it is very important—you said the same thing—for the companies and the growers to stay just as close together and work hard to solve these problems so that we can together continue to make a profit, both the manufacturers and the growers, overseas.

Mr. ROSE. Thank you, Mr. Whitley, for your excellent statement and we appreciate you being here. And you feel free to head to the airport whenever you would like. Mr. Baesler has a question.

Mr. BAESLER. Charlie, I have to ask you a couple of questions. Whether in the market in the Flue-cured, do you attribute any of the—more of the tobacco going to the pool to do with the company's discomfort with the regulation or to do with the import?

Mr. WHITLEY. I think, as has been mentioned before, Mr. Baesler, there are several factors there. One is, as we all know, the quality of the crop was not what it might have been. Another is that company profits are down. They are not building up their stocks as fast as they have in the future, in some instances. They do not know what is going to happen on the excise taxes. So it is a variety of factors. It is not just a matter of import/export. Those purchases were down for this year.

Mr. BAESLER. Charlie, what concerned me a great deal is that it looks like there is a press on by the companies to buy all of the import they can before the restrictions go in place, and that is concerning because as Mr. Hopkins pointed out earlier, in September of 1993, we are already equal to what we had in 1992. It seems that there is a movement on to buy all of the imports they can, and that does not seem to be a good faith effort. Why such an increase?

Mr. WHITLEY. I really do not have the answer to that, Mr. Baesler. I know the figures you are referring to and——

Mr. ROSE. So you are not disputing the figures?

Mr. WHITLEY. I do not dispute the figures.

Mr. ROSE. There has been a doubling——

Mr. WHITLEY. I do not dispute the figures.

Mr. ROSE. All right.

Mr. BAESLER. I think he gave that answer. I have one more question. What did you have to say, Charlie?

Mr. WHITLEY. I just had one other comment, and that is that I have been on the Washington scene in one capacity or another for 33 years now. I have been very heavily involved with tobacco and all of that, and I never saw a man come to Congress with the knowledge and the expertise about tobacco that this gentlemen, Congressman Beasler, has. It has been a great pleasure to work with somebody who really knows—I do not mean that Larry Hop-

kins and John Breckenridge and other people did not—but they were not growers. It is a real pleasure to work with a gentleman who really knows tobacco.

Mr. BAESLER. I appreciate that. Now let me ask you one more question. [Laughter.]

Mr. ROSE. Make it tough, now.

Mr. BAESLER. We have heard a lot of concerns about the pool this year in Burley. Do you have any information—do you anticipate that the Burley people could experience a feeling by the companies that—let me back up. We know the companies have increased the imports tremendously over the last several months for some reason. We know that in the Flue-cured, more went to the pool than necessary; some for different reasons. We know that the companies are always comparing our prices with those that you pay the foreign market. What comfort can you give the farmers here or other people in Burley that we are not going to just allot the tobacco that you have here in this coming market, rather than try to actually bid on it?

Mr. WHITLEY. I really cannot speak for our companies. I have not, had in-depth conversation with the legal department there. You have one of our company's managers of the legal department that is going to testify here shortly. I would really honestly be surprised if as big a percentage of Burley goes into the pool for a lot of reasons. I do not think that the quality in Burley is down to the degree it was.

But, the total amount out there on the world market affects this a lot. Burley not only, of course, is used in American products, but it is sold as leaf overseas. And as a result, when you have a big quantity of tobacco, both Burley and Flue-cured, floating out there on the world market, it is just bound to reflect itself in the price and the purchases, and that is there. But Dan McKinney's guess would really be better than mine. Mine would be a guess.

Mr. BAESLER. I would like to ask one more question and I will quit. How can we hope to increase the sales—in other words, there is a rumor around that the companies own the tobacco businesses in the other countries. That is a rumor—whether it is true or not. How can we hope to increase our sales basically if the companies themselves are who we are trying to compete with in the foreign countries?

Mr. WHITLEY. Well again, my answer to you on that one, Congressman, is that we need to continue to work with the companies to negotiate a grievance so that we can continue—both the companies and the growers—for them to use your product at a profit for both of you.

Mr. BAESLER. Thank you, Charlie.

Mr. ROSE. Charlie, thank you very much.

We will excuse you at this time.

We are concerned about companies manufacturing a lot of their cigarettes overseas, but I will point out to the panel that the House Ways and Means Committee is aware of that, and they are also aware that if the companies get in the habit of manufacturing their cigarettes overseas, that the House Tax Writing Committee is prepared to change the tax laws so that they will have to spend that money overseas.

You and I have a bigger voice in that than these people out here may realize.

Next is Mr. John Fritz, tobacco farmer, Nicholasville, Kentucky.

STATEMENT OF JOHN FRITZ, TOBACCO FARMER, NICHOLASVILLE, KY

Mr. FRITZ. Thank you, Mr. Chairman. It is an honor to be here with you and Congressman Baesler. I do not have a prepared statement. This is mainly the gospel according to John. But—so, being as a little kid on the tobacco market—about 40 years. I was not too far from Mr. Whitley's figures in there, by the way, so maybe I can get a job with this nice accounting firm.

The Burley tobacco market cannot become a solid market when there are so many variables out there. It is kind of like—I do not know if you are a fisherman or not, but it is kind of like when you are fixing to go fishing and get in the boat and you look over your shoulder and you see so many big thunderheads, you do not get your boat too far out in the water. You cannot really do a lot of serious fishing by looking over your shoulder at those thunderheads moving in.

I think the tobacco companies are going to be very cautious in buying this season. I think that you will see the pool be the buyers of the majority of the more expensive tobacco, and that tobacco will probably stay there until stability starts coming about. I think you will see also buying intentions go down the next year and companies will reduce their inventories.

The question was asked about the massive amount of tobacco coming into the countries. Now I think it is some of the tobacco that has been brought up and stored in overseas facilities for the last couple of years and they are trying to get it in, Congressman Baesler, into the country before this January 1 deadline and the rush is in.

Mr. ROSE. I am going to—Dallas—if I can interrupt you, I am going to ask Dallas in just a minute. Apostle John, that is a good point. And the question that we will ask Dallas in a minute is, is there anything in the law or the regulation that grandfathers them in to using up all of their foreign stocks before they have—if they are buying foreign tobacco like it is going out of style—which we have observed from the figures—and they do get it all under the shed, so to speak, before this new 75 percent domestic content requirement goes into effect, we hope, January 1, for God's sakes, do not write in the regulations that they can use up all of what they got under the sheds before they have to go to the 75 percent rule. Do you follow me?

Now if we have to pass a little legislation to do that, that would straighten them out right quick when the Burley market opens. If they know that beginning January 1, they have to make it with 75 percent and not get a chance to gently use up all of this foreign tobacco that they have brought in through the years. We will talk about that later.

Does anybody want to react to that?

Mr. Coyle, you looked like you were about to speak.

Mr. COYLE. Thank you, Mr. Chairman. We were just discussing, and our assumption is, there would be no provision that come Jan-

uary 1—December 31, 1994, they will have to certify that they have used a minimum of 75 percent United States grown tobacco. There would be no loophole there.

Mr. ROSE. In Washington, the big print giveth and the small print taketh away. [Laughter.]

And that, Dallas, is what we have to look out for.

Now, Mr. Fritz, go ahead.

Mr. FRITZ. I want to talk a little bit about quotas and how it affects farmers. One of the biggest expenses a tobacco farmer can incur is having a big reduction in quota. I think we all know as farmers, not only does it lower his gross income, but it also lowers his net income because of what most farmers do in this region. I am sure the same way that the Flue-cured region is. Because of the scarcity of pounds out there after you have a big cut. He has to go out and lease some more quota, and this is another added expense to him. And to maintain his land and his farm utilization, usually, he tries to raise about the same amount. So every time we get that 10 percent cut, it is just another 10 percent, you might say, added increase on us. So we just do not like to see cuts. And one reason why we worked so hard on this legislation that just passed was that it put some stability in the program. And so we hope we can one time have a pretty good level amount of tobacco that we can raise year after year.

Of course, then, we can talk about income—the excise tax and the impact on it. And I suppose about the only other product that has probably been taxed heavier than tobacco is probably the tea that sat on the boats in Boston harbor. And we all know that story, and that was one of the first stories I learned as a kid about overtaxation and what this country really stood for about the life, liberty, and pursuit of happiness—trying to be fair. And an increase of 24, 50—75 cents on a pack is invading my life and my liberty and my pursuit of happiness and it is also invading those consumers. And we got to remember, there is still 50 million people out there that smoke.

A 75-percent increase in excise tax—I think Dr. Miller, some of his work that he has done, would mean, in 5 years from now—which is not very far down the road—when you get older, 5 years looks closer. I do not know why; but it seems like it is closer. It means 41 percent loss of our quotas. My computing that is around $300 million to the State of Kentucky, to the farmers. If you turn that over three times to the economy of Kentucky, it is almost $1 billion or you can figure about $1,500 per man, woman, and child in the State of Kentucky.

My farm produces about 50,000 pounds of quota, which I consider myself about an average producer. I generate today over $300,000 in excise tax for the Government, and I create about five to seven jobs for other people. My family has been raising tobacco since the 1930's—that is the 1830's. To me, it is not a crop; it is a heritage. And it is a thing I would like to pass on to my two sons.

At this time, I would like to thank you for listening to me.

If you have any questions—I can answer any question. It may not be right, but I can answer it. [Laughter.]

Mr. ROSE. I got some horse race questions I want to ask you. [Laughter.]

We might have some questions in a minute, but you have done us a good job.

Next is Mrs. Mattie Mack, tobacco farmer from Brandenburg, Kentucky.

We are glad to have you.

STATEMENT OF MATTIE MACK, TOBACCO FARMER, BRANDENBURG, KY

Mrs. MACK. Thank you. I want to thank Congressman Scotty Baesler and Congressman Charlie Rose for the invitation here today. I think it is an honor—I feel honored to be here in the midst of all of the—well, we down home say "all of these politicians."

Mr. ROSE. Sometimes, that means different things. [Laughter.]

Mrs. MACK. My name is Mattie Mack. I have been a farmer all my life. I was married to a farmer and he brought me from Georgia to Kentucky where I thought tobacco was collard greens. And I learned different. Tobacco has been good to us. We lived in a one-room apartment in Louisville for many years, and I did not like the city life. And went around in the 1960's looking for a farm. We found a farm, but we could not go to the bank and borrow money. You could not go anywhere and borrow money. But the man that had the farm said, "Well, you all can pay at the end of the year when you sell your tobacco," because they had a tobacco base on it. And so, we learned that we could lease tobacco and make just a little bit more. And so, this is how we paid for our farm—on tobacco at the end of the year.

We raised four children and we educated them at Tuskegee Institute, Alabama on tobacco. We raised 38 foster children. And they always placed the problem teenager or that problem 11-, 12-year-old—they went from county to county and they could not get along. They said, "Put them over there at Mattie Mack's place." So they put them at our place, and I found out they did not have nothing to do, but to get in trouble. So I solved that problem. [Laughter.]

They went to the barn; they cleaned the barns out. They got the stick, they dropped the sticks, they drove the sticks. And they helped top tobacco, they hoed tobacco and we brought it in and we turned around and we stripped it. The young men ate a good supper and they took a shower and they went to bed. There was nothing left for trouble.

Tobacco has been good to us. Without tobacco, we would not have what we have now. The children would save their money. The foster children wanted these expensive things. And we said, "Well, you work and you save your money. And when you go out and you wear this, you tell them that you worked in tobacco. And you feel proud—say it proudly." So that is what they did. They had money to go to the movies and go to ball games. And that kept them out of trouble. They could always come back home.

We leased a lot of tobacco from the widows after their husbands passed on. And if it was not for the tobacco, they would not be able to pay their property taxes, and to be able to buy extra gas to keep themselves warm in the winter, and to hire someone to come in their home, and to buy their groceries when there is snow on the ground because Kentucky has a lot of snow. And so they could maintain their home.

Many women and children work in tobacco. The Bible says, "you earn your living by the sweat of your brow." Well, let me tell you, I sweat all over. [Laughter.]

There is nothing that would take the place of tobacco. It is the only cash crop we have in Kentucky. Tobacco has paid for our medical care, our clothing, food—everything.

I want to say to Mrs. Clinton, we want to invite her down to Meade County and let her go wandering into my tobacco patch. Let her see the women and children working hard—children working hard for Christmas, looking forward to Christmas.

I plow all of my tobacco. My husband works at Olin-Mathieson chemical plant. And he works 8 a.m. to 8 p.m., all day long. So I run the farm. I plow the tobacco and I hoe that tobacco, and it is so pretty out there and every time I get to the last row and I say, "Lord, this tobacco is not going to work because I am going to need some rain." I still have to depend on the Lord. And in a day or two, here come the rain. Now I always say that God does not send the rain all at one time because if he did, I would still need some rain down the road until that tobacco is ready to be harvested. But he sends me a little here and a little here and a little here and a little here, and then, when I get to the end to harvest that tobacco, I got more than what I need. I say, "Thank you."

I want to say to Mrs. Clinton, "Us women are mad down in Meade County. If you would take a little here from us and a little here and a little there, and when you get ready to total it, you would have more than what you need because see, your God is my God, and he will supply your needs."

Let us keep people on the farm working. I have a lot of people on the farm, and these are poor people. And they do not have insurance—not a lick of insurance. And we are for this health care program. It is way overdue. But, my God, do not section one group of people out to pay for this health care program.

I am happy to be here. I am happy to be able to speak before all of these farmers here. We raise vegetables, too, but they just do not bring nothing like tobacco.

I am hoping that one day that I will be able to fence my farm in, so I will not have to run cows and hogs, before I get too old. And I am hoping that I will be able to sit in a new car and smell the newness in it for the first time. We talk like tobacco is an illegal crop. Tobacco is very legal. You go in these airports—no smoking. When I was in school, we were taught that Columbus discovered America and if it had not been for tobacco trading for clothing and trading for goods—they took profits from tobacco and made roads, built schools, and built hospitals. And we are still doing that now. Let us continue to do it with tobacco. Thank you.

Mr. ROSE. Thank you very much.

Now, I dare any one of you in here to top that. [Laughter.]

Mrs. Mattie Mack, I have been in Congress a long time, but I have never heard a better testimony for tobacco than you just gave. And Mr. Baesler and I have decided that we are going to take a copy of your testimony, and so, I will say to the reporter, please type it correctly. [Laughter.]

We are going to take it down and we are going to give it to Mrs. Clinton. We are going to give it to her.

And when we subpoena Mr. Snell to come to Washington and give his great statement, I want you to come with him.

I am thankful for what you all said on the panel, and I do not have any questions after that. That was just incredibly beautiful.

Mr. BAESLER. There are no questions?

Mr. ROSE. No questions. Thank you very much, all of you.

Next is. Mr. Brown Sharp, the owner of Tattersalls Tobacco Warehouse, Lexington, Kentucky; Mr. Gene Rose, manager of Lexington Loose Leaf Tobacco Warehouse, Lexington, Kentucky; and Mr. Randy Harrison, vice president, Export Leaf Tobacco Company, Louisville, Kentucky.

We are glad to welcome—this is our last panel, and we are moving along very well here. I just want to say as I introduce the last panel that you all have a remarkable State here. You have Congressmen Baesler, Barlow, Natcher, and Senator Ford, who I work with constantly on tobacco. And there is no other tobacco State that has a team quite like that working for them in Washington. And Mrs. Mattie Mack, I understand is from Mr. Natcher's district, and I am going to tell him when I see him next week about what a great job you just did.

But your team is in place, and they all understand this issue and are in a position to make things happen in Washington, and I want to thank Kentucky for what you have done to help North Carolina, Virginia, South Carolina, Tennessee, Georgia, Alabama and Florida with this tobacco business.

Mr. Brown Sharp, we are glad to have you and we look forward to hearing whatever comments you would like to make.

STATEMENT OF BROWN SHARP, OWNER, TATTERSALLS TOBACCO WAREHOUSE, LEXINGTON, KY

Mr. SHARP. I would first like to say that we certainly do welcome you here to Kentucky, Congressman Rose. I think I have talked to you before in the years past. You may remember back about 1985.

Mr. ROSE. Yes sir; I do.

Mr. SHARP. And I also compliment Congressman Baesler for having this hearing. It is very helpful to air the issues. There are a few comments that I would like to make.

The first thing that I would like to talk about is the domestic content regulation. I would like to point out that there is something wrong with the system because we have had vast imports recently and through the years. It happened before back in the years when the no-net cost program first started. If you remember—the folks remember in 1982 when the no-net cost first started, the producer was obligated to pay the no-net cost. The first year, the producer was obligated to pay 1 cent. I think the second year, the producer was obligated to pay 5 cents.

And the third year, the producer was obligated to pay 9 cents. And all of these years, the imports were rising. And then, the fourth year, we were facing the—in order to keep up with the no-net cost—to pay 30 cents, and they lowered the price support to 30 cents, and then, the buyout program. But during those 3 years, these producers contributed quite a bit of money to that no-net cost. I think somewhere in the area of $90 million, and that money was just lost and gone.

What I am suggesting to you now that the major problem that we have here is that there is no poundage control on imports coming in to this country and never has been. You are at a much better advantage if you are a producer across the border because you can raise all you want to. And look at the price system over here, just undercut it a little bit. And you have no controls.

So I am going to suggest to you one method whereby that could be controlled.

Mr. ROSE. You do not believe our domestic content legislation will control that?

Mr. SHARP. It has not controlled it.

Mr. ROSE. Well, it has not gone into effect yet.

Mr. SHARP. I would say that there is another way it could be helped and I am about to suggest that way.

Mr. ROSE. All right.

Mr. SHARP. That method. If you would add to the domestic content that you now have the stipulation that the buying companies, when they declare their intentions to buy in February, would be allowed to buy that 25 percent of import tobacco then. In other words, if they declared that they would be able to buy 1 million pounds of tobacco, they are going to declare that, that is what we base our quota on. Then, if you would apply that 25 percent to that, they would have a 250,000-pound limit on what they could import at the going conditions. And then if they import more than that, that is where you want to put the 75 cent tax.

What I am saying is, if it was—in the right direction, you have done the right thing on the domestic content. But if you would add to that that importers of tobacco are limited to 25 percent of what they declare that they will buy in February, then I believe you would have a method whereby imports would be controlled, and then, our quota cuts would mean something.

Mr. ROSE. OK.

Mr. SHARP. That is the first thought. The next thought I want to hit upon is the proportion of the excise tax is to what a farmer gets out of an acre of tobacco. The points here that I was handed as I came in say, "Tobacco is already heavily taxed. One pound of tobacco yields 500 cigarettes or 25 packs. One acre averages a yield of 2,000 pounds or 50,000 cigarettes." If you multiply that times 24 cents, 50,000 times 24 cents is $12,000 that the Government gets off an acre of tobacco now. A grower—I think the university says—either works or hires 300 hours to raise an acre of tobacco. And his net return on an acre of tobacco after he pays his expenses may be around $1,200 per acre. The $1,200 per acre, I think is kind of verified by another article that is in Tobacco Farmer in October, brings that same thing up, only they had the tax figured a whole lot higher. I am sorry, it is the Farm Journal in October 1993. They have the 24 cents figured there on their page where Federal tax collections per acre are $29,674 and the growers' net return is $1,257 per acre.

What I am saying is that what the Government makes off an acre is 10 times more than what the grower is now making. So there is a tremendous tax on tobacco now—excise tax. And if things are to be put in proper proportion and any of this excise tax goes to health care, I am saying that we should start at the ground level

and count the first $5 billion that tobacco is putting on the table right now.

Mr. ROSE. Well, you would agree then that the Government is going to have an incredible investment in tobacco and maybe they ought to have Treasury agents come out and crop it. What would you say to that? I obviously do not want the tax, but based on these returns—I do not guess you call it cropping out here. But put it in the barn and guard it day and night.

Mr. SHARP. What I am saying is——

Mr. ROSE. I agree with you completely, the point you are making.

Mr. SHARP. That already tobacco is paying a heavy tax and I do not think that it has a lot to do with—it is nothing like strong enough to finance health insurance.

Now I am going to say to you that this is getting into figures far above my comprehension. But if we are talking about health insurance—this is the last thing I want to talk about is health insurance—if we are talking about a method of having national health insurance, it is a little different from government services of other types. In other words, if your country is threatened with a war, you send out an army to protect the country. And you protect the people collectively. But this is an individual benefit up to now. It is to be received as an individual benefit. If you buy health insurance, it costs something maybe like $3,000 a year individually for one individual. So, if you want to get on one side of the balance sheet what this program is going to cost, you would have to multiply $3,000 a year times the population. And if you want to get in mind how you are going to fund such a thing, then you will have to come up with an amount of money that is going to equal that cost, or otherwise you are going to funnel the country further into debt, which is what we said we did not want to do.

So what I am saying is that before health insurance is ever funded, I think every Congressman and Senator from every State ought to see that it is properly funded before you start on it. Do not be guessing around at what you do not have. Make sure that you have an adequate source of money before you start funding health insurance. Now do not misunderstand me. I am for health insurance and I think it can be had, if the people in this country want it bad enough, they can have it very quickly. But what they need to do is they need to get back to democratic principles in mind when they get it.

My good friend, John Fritz, mentioned the Boston Tea Party which is very symbolic saying that you are going to tax some people heavily on an excise tax where other people are going to receive the same benefit and pay nothing at all. So I wrote a letter to President Clinton and Hillary sometime ago. It did not have anything to do with this program whatsoever. But, it does have to do with democratic principles. And if I may read the letter and I will leave a copy.

Mr. ROSE. Well, why don't you give us the highlights and we will make the whole letter a part of the record?

Mr. SHARP. I do not think I could do that. It is not too long.

Mr. ROSE. All right.

Mr. SHARP. "Dear President Bill Clinton and Hillary Clinton. I am writing to express my views on national health insurance and

offer my ideas as to how a program of this magnitude could be obtained to service the people of the United States. I respect your presentation for the need for national health insurance. I am stating that a method of obtaining a regular, reliable, equitable, sufficient, and continuous method of funding such a program is essential to the success of the program, and such funding needs to be in force and ahead of the costs of the program.

As health insurance is a benefit that will be received individually, no individual or group should be required to pay for the health insurance of another individual or group. A method should be devised that is representative of all the people that receive the benefits. The difficult part of funding this is how can the unemployed—those now on welfare, those without income, those on Social Security—be funded from the working people that are already being taxed to support the cost of welfare, unemployment, those without income and Social Security, as well as the other costs of government?

As we plow our Kentucky soil and the rains fall on newly plowed ground, we sometimes find an arrowhead, which is a positive reminder that another people with different views of the rights of individuals have occupied this land. I therefore say the proper question now to ask in seeking funds for national health insurance is, what property or income is representative of all of the people who will receive health insurance? I suggest that all of the government-owned property in the United States in a 3-mile limit belong to all of the people, and therefore, all of the income derived from oil, minerals, timber, or rentals and leases of this property be dedicated to national health insurance. In addition, a national sales tax on anything sold in or sold out of or sold into the United States—hopefully, not more than 1 percent—would provide a regular, reliable, equitable, sufficient, and continuous source of income that would provide the necessary income to fund national health insurance."

That is the letter.

Mr. ROSE. All right. Thank you very much. We appreciate your very useful testimony to us.

Mr. Gene Rose, manager of Lexington Loose Leaf Tobacco Warehouse, Lexington, Kentucky.

STATEMENT OF GENE ROSE, MANAGER, LEXINGTON LOOSE LEAF TOBACCO WAREHOUSE, LEXINGTON, KY

Mr. GENE ROSE. Thank you, sir. I appreciate you being here. I do not know that I could add to any of the comments that have been made today. It seems like they have all been covered.

Again, on the massive tax increase on cigarettes, the question I might have, if that decreases consumption, what happens the next year and the next and the next? It looks like it would be a way of killing the product, rather than trying to find a way of revenue.

I do not really have other comments.

Mr. ROSE. That is a pretty strong point, though. And some have suggested—I think Rush Limbaugh suggested that if the Government was going to use tobacco to pay for the health care program, they ought to get behind promoting it just as hard as they could.

Next is Mr. Randy Harrison, vice president, Export Leaf Tobacco Company, Louisville, Kentucky.

STATEMENT OF R.F. "RANDY" HARRISON, DIVISIONAL VICE PRESIDENT, LEAF OPERATIONS, BROWN & WILLIAMSON TOBACCO CORP.

Mr. HARRISON. Thank you, Chairman Rose and Congressman Baesler, for inviting me to speak before this group today. I will keep my comments short as most of what I wanted to discuss today has already been covered to a large degree.

I would like to take this opportunity to thank the subcommittee for their work over the years. Your oversight regarding tobacco gives direction and guidance to an industry rich in American heritage, but often maligned of its dignity.

The first thing that I was asked to address today was the 1993 Burley crop, and a lot has been said about it and nothing that I can really disagree with. We certainly feel at this point that we are looking at a good Burley crop this year—what we would classify as a very usable crop from a domestic point of view. And we also think there is very good exportable tobaccos in this crop.

We also support the Department of Agriculture's estimate of approximately 620 million pounds to be produced out of this crop this year. It is very difficult to make a determination at this point as to what the pool may get out of this crop. However, it is our guesstimate at this point that 150 million pounds plus would not be unreasonable to expect out of this crop.

I would like to give you some reasons why we think this is a possibility. First, as we all know and has been testified to here, there is a tremendous excess of world tobacco stocks, especially Burley tobacco stock. Supply simply outstrips demand and it exasperates the high U.S. pricing situation. Export requirements are down mainly due to U.S. prices, especially when compared to market prices in the other parts of the world. In addition, the international tobacco climate, while of strong potential, is perhaps also taking longer to unfold due to trading yet to open in some parts of the world.

The other factors that have been talked about a great deal today already is the 75 percent U.S. tobacco content law. While the objective of reducing imports is widely agreed in the U.S. tobacco industry, we believe a statute that forces domestic content is unsound as a matter of economic theory and departs from good business practices. Only the future will tell if even in the short term this legislation will have the desired effect of reducing imports.

Other factors this year are the potential use of new excise taxes, as well as the potential for even adding additional restrictions regarding the use of tobacco products.

So, taking all of these factors into account, the results are the buying companies out there are taking a very conservative approach to their buying practices in the tobacco markets these days. And I think this is likely to happen in the Burley crop.

The combinations of forces I have already outlined, especially the glut of tobacco in the world market, have resulted in export orders being down this year. When you take into account international considerations, combined with the lowering of domestic intentions, related to the turmoil of the U.S. market, it is understandable by both the Flue-cured and Burley pools are projected to be up considerably this year.

I was also asked to comment by the chairman on such things as relates to the marketing of Burley tobaccos and weight limits on bales. Would you like for these comments to be made, or would your like to skip over those?

Mr. ROSE. I think if it is——

Mr. BAESLER. It is on the record.

Mr. ROSE. That is on the record in your statement. Your whole statement is part of the record. We would like to ask you some questions whenever you finish.

Mr. HARRISON. That is all I have. Thank you very much.

[The prepared statement of Mr. Harrison appears at the conclusion of the hearing.]

Mr. ROSE. You are vice president of Export Leaf Tobacco Company, is that correct or we got it wrong?

Mr. HARRISON. That is correct, sir. That is a division of Brown & Williamson Tobacco Corporation, Louisville, Kentucky.

Mr. ROSE. All right. Do you believe that Brown & Williamson Tobacco Company is planning on using tobacco that it has imported in recent years in the manufacture of cigarettes in this country in 1994?

Mr. HARRISON. Are we planning on using tobaccos that we imported?

Mr. ROSE. Yes, sir. You have a pretty good store—I am not asking you how much—but you have a pretty good store of imported tobacco—all companies do. I am not just picking on B&W. But all companies have a pretty good store of tobacco on hand that they have imported in the recent years, and even more so, as Mr. Hopkins pointed out, in 1993. Are you planning on using that tobacco to make cigarettes in 1994?

Mr. HARRISON. Yes sir; we are.

Mr. ROSE. Well then, if you are going to let 150 million pounds of Burley tobacco go in the co-op, how are you going to make these cigarettes with 75 percent U.S. tobacco?

Mr. HARRISON. Chairman Rose, one of the problems is that we have to buy based on what we expect to sell 2 years down the road. And we are taking a very conservative approach to what may happen in the future.

Mr. ROSE. I would think you would slow down on buying imported tobacco. See, what I am driving at, my friends from USDA, it looks like somebody is counting on using up the imported tobacco first before they get around to making—and I am going to ask each one of you all if you have any knowledge in a minute—of any attempt to have these regulations written in such a way that they can use first their storehouses of imported tobacco before they have to start manufacturing cigarettes for sale in this country or for export with 75 percent U.S. grown tobacco.

Mr. HARRISON. Chairman Rose, it is our understanding the way this law is written that the 75 percent content of U.S. tobacco is based on what you use to manufacture cigarettes. Therefore, it would be impossible for us to obey the law and use more than 25 percent imported tobacco.

Mr. ROSE. OK.

Mr. HARRISON. So, that is certainly and truly not our intent.

Mr. ROSE. Why is there so much imported tobacco coming in the country? Why has it gone from 277 million pounds in 1991 to 462 million in 1992 and until September of 1993, roughly the same thing as it was in 1992? Can you give us any reason why that degree of imports—and I am not just talking about you because—every cigarette manufacturer I talk to says, "It is not me that is importing; it is all them other fellows." [Laughter.]

So, we will take that for granted right here. Now go ahead and tell me why do you think the imports are up?

Mr. HARRISON. Yes, we are importing tobacco from overseas.

Mr. ROSE. Well, what are you going to do with it?

Mr. HARRISON. We had planned to make cigarettes out of it to export offshore.

Mr. ROSE. OK.

Mr. HARRISON. Brown & Williamson produces more cigarettes on a percentage basis to export overseas than do most of our domestic friends. In order for us to be competitive on most of the newer markets being opened, like CIS countries and former Soviet Union countries, Eastern Europe and other parts of the world, it would be—let me put it another way. It would be impossible for us to be competitive on those markets, in the cigarette market, and produce a cigarette that has 75 percent U.S. content. We simply cannot compete with those parts of the world. So our intent, Mr. Chairman, was to use some of that imported tobacco to lower the price of cigarettes we would export to these areas of the world.

Mr. ROSE. Well then, the obvious answer is, if you are going to use that cigarette tobacco that is already imported above the 25 percent that you will need for domestic production in 1994, you will either store a little bit or you will have to export the tobacco that was imported?

Mr. HARRISON. It would not be our intent to export that tobacco. Well, I am sorry. That may be the case if the decision was taken by our company to export or to produce these cigarettes overseas. That may be the case.

Mr. ROSE. All right. Thank you.

Mr. BAESLER. I would like to follow up on that. Then, if the silver lining in tobacco production is export, as previously talked about, then it looks like you are getting ready to put a cloud on that silver lining because what you are basically saying is that the increasing export market is probably not going to be available to domestic producers because your—with the increased imports from 1993—increased imports—you are—that is why you are bringing it in, so you can take advantage of the increased export market. So seemingly, what you are saying is that the domestic producers here in Kentucky and North Carolina or wherever should not count on too much being part of the export market.

Mr. HARRISON. Congressman, no. I would not like to leave that message. There are certainly lots of markets overseas—and Japan is certainly one of those markets—that desire—that we produce a very high quality cigarette for that market. And that cigarette we are currently producing contains more than 75 percent U.S. tobacco. So I would not take that as a blanket statement, no sir. But there are certainly areas in the world that are currently opening

up to us now that we cannot produce cigarettes with that high level of U.S. tobacco and still be competitive.

Mr. BAESLER. So, let us reverse that, then. Let us take the other approach that—I understand what you are saying. It would seem then that if you can meet your export expectations and some of the countries that have not been open to us in the future—if you can meet those by importing or using all this import you have here, it would seem that we would have a less strain—you would not have any difficulty in meeting the 75 percent requirement here because you could use the imported tobacco to meet all of your new export markets. So therefore, there should not be much problems from the companies in meeting the 75 percent content requirement.

Mr. HARRISON. If it was strictly for domestic use requirement, I would say that is true, sir. We can still, I think, be quite competitive in the world if that figure were lowered for export problems, say, to a 50 percent level.

Mr. ROSE. My point is that the 75 percent domestic content requires that there be 75 percent in the cigarettes that are made in America, whether the cigarettes are exported or whether they are consumed here. And to the company that says we are going to go offshore and make our cigarettes for export business, I would urge that they rethink that real carefully because the Ways and Means Committee is looking for a way to raise money and we are looking for a way to reduce the domestic cigarette tax, and we can reduce the domestic cigarette tax by increasing the tax complications for those that manufacture cigarettes overseas. And that is one way we can reduce the cigarette tax, OK, is do away with drawback, do away with some of the title passage rules. There are about four very complicated tax provisions that will work, and I would throw that into the mill for discussion.

Go ahead.

Mr. BAESLER. Mr. Harrison, on average, how much does your company buy from the co-ops, or can you say? Maybe that is classified. In a year's—say in 1990, 1989, how much did your companies go back in on and bid and buy from the co-ops?

Mr. HARRISON. A very small number. In fact, I cannot remember us buying for domestic use—for our domestic company. I cannot remember us buying any pool tobacco over the last couple of years. We have bought some pool tobacco to ship to our export companies.

Mr. BAESLER. Somebody asked a question earlier, what price would the farmers have to sell for here to meet the price you buy it for from Brazil or wherever you buy it?

Mr. HARRISON. To compare what has happened on the world market in the last couple of years would be somewhat unfair because of the glut of tobacco and the fact that prices overseas have been driven way down. But in general, for the U.S. farmer to be competitive with the better quality offshore tobaccos, he would have to come—U.S. prices would have to come down in the range of 20 to 25 percent.

Mr. BAESLER. Twenty-five percent or cents?

Mr. HARRISON. Percent.

Mr. ROSE. All right. But you can buy tobacco in Brazil for 20 cents a pound?

Mr. HARRISON. Mr. Chairman, it would have to be very poor or a byproduct.

Mr. ROSE. All right. We do not need to get into that.

Thank you all very much for your testimony. We appreciate you being here. We will excuse you at this time. Thank you.

Will our USDA panel come back up?

Mr. Forlines, Mr. Miller, and Mr. Hopkins.

Mr. Snell, we will let you rest. You do not mind coming and testifying in North Carolina against a State college agricultural economist, would you?

I am just going to ask a general question. Do any of you—and Dallas, you can be the lead answerer—Secretary Smith, do you have any knowledge of any attempt to write the regulations for the domestic content regulations that were in the Budget Act that would go into effect January 1 to provide that the companies would be allowed to use up their imported stocks of foreign grown tobacco before they have to start complying with the Domestic Content Act, do you have any knowledge of any such thing?

Mr. SMITH. Mr. Chairman, no, we do not. In fact, I would say with regard to this particular issue, the small print is in line with the large print on that particular issue.

Mr. ROSE. Excellent. And let me ask Mr. Forlines, have you been contacted, Mr. Forlines, by anybody who has asked whether or not this could be changed?

Mr. FORLINES. Yes, I have.

Mr. ROSE. Would you supply for the subcommittee record the name or names of those people, please? I am saying for the record, in writing, I would like to know who they are.

Mr. FORLINES. OK.

[The material follows:]

BROWN & WILLIAMSON
TOBACCO CORPORATION

ERNEST PEPPLES
Senior Vice President

October 5, 1993

Hand Delivered

Mr. Jack S. Forlines
Acting Director, Tobacco and Peanuts Division
U.S. Department of Agriculture
Washington, DC

Dear Mr. Forlines:

Thank you for the opportunity to visit with you on September 30, 1993, and to comment on various areas of concern with respect to the implementation of Section 1106 of the Omnibus Budget Reconciliation Act of 1993.

I have enclosed with this letter, for your consideration, a proposed form of regulation, with an accompanying memorandum that summarizes the rationale behind each section of such proposed regulation.

If we can provide further information, or if we can be of further assistance, please feel free to contact me.

Sincerely,

Ernie Pepples

EP/dlb

Enclosures

MEMORANDUM
Regarding Proposed Regulations for
Section 1106 of the Omnibus Reconciliation Act of 1993

The Omnibus Reconciliation Act of 1993 ("Act") is not a model of clarity. Inconsistent wording, references to differing time periods and the absence of guidance on important features for compliance accent the need for thoughtful implementing regulations. While the attached proposed regulations are not comprehensive, they are intended to reduce shortcomings of the statutory language, guided by objectives of fairness and practical administration.

Effective Date

The domestic content certification and reporting requirements of the Act relate to cigarettes produced by a domestic manufacturer of cigarettes "for each calendar year." The logical effective date for certification and reporting is for cigarettes produced on or after January 1, 1994, the beginning of the first calendar year following enactment of the Act.

The logical effective date for the penalty provisions, on the other hand, should reflect tobacco inventory and aging practices of the industry. Standard industry practice involves "aging" tobacco for 24 months on average from the time of purchase until use in producing cigarettes. Therefore, cigarettes produced in 1994 and 1995 will use tobacco purchased by manufacturers prior to enactment of the Act. Retroactive, ex post facto application of the penalties with respect to cigarettes produced from tobacco purchased prior to the enactment of the Act would arbitrarily penalize domestic manufacturers of cigarettes for past purchases which were not then subject to such penalties. By applying the certification and reporting provisions effective January 1, 1994, and penalty provisions effective January 1, 1996, the Department of Agriculture will achieve the Congressional purpose of encouraging domestic manufacturers of cigarettes to purchase domestic tobacco, starting immediately.

Administration

This proposal is straightforward; it does not involve any ambiguity or shortcoming of the Act.

Mr. ROSE. Mr. Miller, have you been contacted by anybody who would like to see those regulations changed? Just the same question I asked Mr. Forlines. Do you want me to reask the question? I will reask the question if you are not clear on what I am asking.

Mr. MILLER. Mr. Chairman, I have been contacted by some individuals that are concerned about the content of the regulation, but none specifically on this issue.

Mr. ROSE. The issue being the use of the foreign grown stocks before they have to comply with the 75 percent provision.

Mr. MILLER. I have been asked no questions about that.

Mr. ROSE. Directly on that point?

Mr. MILLER. That's right.

Mr. ROSE. Have you, Mr. Hopkins?

Mr. HOPKINS. No, Mr. Chairman, I have not. There have been open discussions with specific questions about that.

Mr. ROSE. Where were these discussions?

Mr. HOPKINS. They called the office and just asked about the domestic content and the reactions to that.

Mr. ROSE. But, has anybody called you that you know or could identify on the telephone to ask you, "Will it be possible for us to use our foreign stocks first?"

Mr. HOPKINS. No.

Mr. ROSE. Gentlemen, you have done a great job.

Mr. Baesler.

Mr. BAESLER. I have a couple more questions.

Mr. HOPKINS. Mr. Chairman, I would like to point out one thing on the information that we gave to you in reference to imports. The very last page, if you will notice, contains 20 countries from which we have been receiving imports. That is not the total amount of countries. We receive imports from 82 countries. This is the top 20, if you will. And we would be glad to supply you with all of them, if you would like.

Mr. BAESLER. Thank you.

Mr. ROSE. I think we would like to have that for the record of this hearing.

Mr. HOPKINS. You would like to have all of them?

Mr. ROSE. Yes, sir. Just submit them later to us.

[The material follows:]

United States Department of Agriculture
Agricultural Marketing Service
P.O. Box 96456
Washington, DC
20090-6456

Honorable Charles Rose
Chairman, Subcommittee on Specialty Crops and Natural Resources
Committee on Agriculture
U.S. House of Representatives
105 Cannon House Office Building
Washington, D.C. 20515

Dear Charlie:

Enclosed is the material you requested at the field hearing of the Subcommittee on October 29 at Lexington, Kentucky. The material is an expanded version of a table presented at the hearing which showed volume of imported tobacco from the top 20 countries inspected by personnel of the Tobacco Division, Agricultural Marketing Service since 1984.

The expanded version shows yearly volume from all countries, or combinations, since July 13, 1984, through October 22, 1993. I call your attention to the footnotes indicating the exact time periods for 1984 and 1993.

We stand ready to provide further assistance as needed.

Sincerely,

LON HATAMIYA
Administrator

Enclosure

VOLUME OF IMPORTED TOBACCO BY COUNTRY 1984 - 93, IN POUNDS 1/ 2/ 3/

COUNTRY	84 /4 JULY - DEC	85 JAN-DEC	86 JAN-DEC	87 JAN-DEC	88 JAN-DEC	89 JAN-DEC	90 JAN-DEC	91 JAN-DEC	92 JAN-DEC	93 /5 JAN-OCT	Total 1984-93
BRAZIL	24,460,541	80,468,153	77,329,424	85,585,966	84,510,344	80,109,386	88,891,064	99,189,870	173,290,481	150,303,022	944,138,251
ZIMBABWE	2,157,397	5,946,294	8,217,272	6,194,965	15,638,474	7,919,225	12,559,049	12,959,192	37,700,975	60,911,747	170,204,590
CANADA	9,592,677	15,725,064	29,593,548	26,648,845	16,513,668	7,300,220	10,757,469	15,932,439	24,193,996	13,545,655	169,803,581
ARGENTINA	4,910,408	8,367,760	8,930,499	13,297,233	12,999,084	12,753,112	15,191,000	27,719,926	35,879,401	25,874,821	165,923,244
MALAWI	3,565,992	9,378,257	12,766,869	11,664,148	12,592,160	13,427,369	17,605,772	24,493,506	28,703,043	34,240,300	168,437,416
THAILAND	9,040,450	3,184,837	8,396,277	9,367,858	1,396,527	7,315,925	2,207,319	11,387,604	30,810,399	31,358,156	114,465,352
GUATEMALA	0	9,135,688	6,679,269	6,554,292	10,309,958	10,459,663	11,058,823	8,900,723	21,468,434	29,742,781	114,309,631
MEXICO	1,090,559	5,713,543	8,517,907	5,820,082	11,319,131	13,024,855	8,648,382	10,080,581	6,686,775	20,329,243	91,231,058
ITALY	3,741,592	4,661,340	5,665,020	6,050,257	9,525,302	8,467,893	7,231,261	14,977,682	13,943,656	10,092,031	84,356,034
CHINA	0	0	540,791	262,669	1,714,307	2,117,299	2,404,777	5,310,933	11,057,128	32,489,571	55,897,475
CHILE	2,654,820	3,095,820	2,281,971	3,761,603	3,453,030	4,494,619	4,500,073	5,289,366	7,170,356	3,625,953	40,327,611
JAPAN	384,995	802,034	4,185,734	22,724,425	8,003,638	2,040,901	739,864	9,943	937	0	38,892,471
GREECE	1,212,100	104,296	0	1,030,159	3,378,436	3,700,643	6,557,043	7,879,968	9,314,109	3,858,897	37,035,651
SOUTH KOREA	2,942,038	7,712,110	2,953,722	11,737,767	5,805,308	2,646,120	1,149,072	283,657	119,384	44,092	35,393,270
PHILIPPINES	0	154,701	1,181,312	1,649,401	1,364,955	592,316	1,009,928	6,966,067	11,569,001	9,726,388	34,214,069
HONDURAS	595,661	3,652,489	2,264,782	863,237	1,404,988	2,094,200	1,814,612	2,654,695	4,094,507	7,428,733	26,867,904
FRANCE	0	623,716	580,716	2,198,532	8,555,599	2,792,455	3,207,144	1,197,486	1,230,493	953,860	21,340,001
SOUTH AFRICA	3,394,917	4,566,779	7,971,281	0	0	0	0	0	1,826,468	3,027,045	20,786,490
GERMANY	1,369,899	0	1,516,102	2,996,317	1,766,538	1,201,932	913,610	1,016,800	3,598,676	3,496,126	17,878,000
INDIA	68,728	110,230	38,801	42,492	40,349	0	248,879	4,952,293	3,461,684	7,920,122	16,883,578
PANAMA	0	1,046,022	929,072	1,289,960	1,444,393	2,030,728	2,371,922	2,115,390	3,045,411	1,988,168	16,261,066
INDONESIA	0	0	221,033	0	0	220,460	0	370,373	2,635,101	11,971,883	15,418,850
SPAIN	0	135,871	0	0	11,475	15,498	1,192,927	614,684	6,110,955	6,043,161	14,124,571
POLAND	397,353	632,809	1,063,084	760,665	1,581,195	2,122,426	643,132	249,702	2,990,594	1,550,769	11,991,729
TAIWAN	0	504,737	0	581,176	6,842,892	331,749	374,354	2,019,135	0	0	10,654,043
COLUMBIA	264,872	1,106,676	127,564	0	0	0	493,136	815,456	3,584,550	1,575,743	7,967,997
NETHERLANDS	0	67,816	0	1,154,706	87,005	235,143	601,999	352,222	1,386,344	3,412,452	7,297,687
USA (RETURNED)	0	0	0	14,984	824,092	0	292,147	1,009,613	1,790,034	2,723,252	6,654,122
PORTUGAL	0	53,792	436,511	634,485	507,939	0	1,161,383	1,076,424	1,051,902	627,306	5,549,742
BANGLADESH	0	0	0	0	0	0	48,281	1,782,000	2,601,542	1,019,711	5,451,534
DOMINICAN REPUBLIC	0	513,573	614,940	768,471	16,489	0	0	0	1,506,636	727,344	4,147,453
SWITZERLAND	0	0	341,515	88,845	0	787,703	26,654	211,641	1,442,470	932,919	3,831,747
YUGOSLAVIA	0	1,590,175	416,089	0	0	17,637	605,100	726,416	0	103,175	3,458,592
DENMARK (BLEND)	0	0	0	471,306	667,908	695,476	555,106	497,436	315,371	191,999	3,394,602
BULGARIA	0	0	0	0	0	0	0	444,183	0	2,277,568	2,721,751
SRI LANKA	0	0	0	0	0	0	0	0	1,686,790	57,566	1,744,356
CROATIA	0	0	0	0	0	0	0	0	336,760	1,361,936	1,698,696
GREECE/ITALY	0	0	0	0	0	0	0	0	634,925	792,071	1,426,996
ECUADOR	0	366,426	227,040	568,786	0	0	238,097	0	0	0	1,400,349
ZAMBIA	0	0	0	0	0	0	35,979	341,801	906,818	0	1,284,598
GERMANY/FRANCE	0	0	0	0	0	0	0	0	957,738	293,428	1,251,166
BRMACHFRARITZIZA	0	0	0	0	0	0	0	0	0	1,108,915	1,108,915
VENEZUELA	0	0	0	39,468	0	39,077	160,715	296,849	445,468	4,560	986,137
KENYA	0	0	0	0	0	0	0	0	500,072	387,304	887,376
HAITI	19,175	596,833	222,589	0	0	0	0	0	0	0	838,597
MALA/ITAL/ZIMB	0	0	0	0	0	0	0	0	0	0	807,038
EL SALVADOR	0	152,828	217,434	0	0	0	0	807,038	0	0	773,191
ZAIRE	0	0	0	0	0	0	0	249,886	153,043	0	670,375
BELGIUM	63,629	0	0	0	0	0	0	0	183,731	486,644	668,749
ITALY/SPAIN	0	0	0	0	0	69,908	35,274	467,464	32,474	0	628,073
BELGIUM/FRANCE	0	0	0	0	0	0	0	56,217	0	571,856	549,960
HUNGARY	0	0	0	132,276	309,371	64,103	0	0	0	549,960	505,750
PARAGUAY	42,864	65,118	47,412	0	0	0	0	78,497	82,106	178,101	494,098
ENGLAND (BLEND)	0	0	0	288,347	51,405	52,151	20,744	44,914	22,669	0	480,230
TANZANIA	0	0	0	0	0	199,075	65,477	0	130,953	84,657	480,162

VOLUME OF IMPORTED TOBACCO BY COUNTRY 1984 - 93, IN POUNDS 1/ 2/ 3/

COUNTRY	84 /4 JULY - DEC	85 JAN-DEC	86 JAN-DEC	87 JAN-DEC	88 JAN-DEC	89 JAN-DEC	90 JAN-DEC	91 JAN-DEC	92 JAN-DEC	93 /5 JAN-OCT	Total 1984-93
URUGUAY	0	0	217,756	0	202,382	0	0	0	0	0	420,138
ZIMBABWE/ZAMBIA	0	0	0	0	0	0	0	359,747	0	0	359,747
FRANCE/MALAWI	0	0	0	0	0	0	0	0	314,934	0	314,934
COSTA RICA	0	0	0	0	0	0	0	0	254,764	59,525	314,289
NICARAGUA	109,348	157,516	0	0	0	0	0	0	0	0	266,864
MALA/ZAMB/ZIMB	0	0	0	0	0	0	0	230,689	30,271	0	260,960
FRANCE/BELGIUM	0	0	0	0	0	0	0	0	250,377	0	250,377
FRANCE/ITALY	0	0	0	0	0	0	0	0	0	241,271	241,271
UGANDA	0	0	0	0	0	0	0	0	0	225,795	225,795
CANADA (BLEND)	0	0	0	221,876	0	0	0	0	0	0	221,876
GRFRITBRGE	0	0	0	0	0	0	0	214,161	0	0	214,161
GERMANY/THAILAND	0	0	0	0	0	0	0	0	0	191,801	191,801
GERMANY/GREECE	0	0	0	0	0	0	0	147,489	28,704	0	176,193
PERU	0	132,717	0	0	0	0	0	0	0	0	132,717
MOZAMBIQUE	0	0	0	0	0	0	0	0	0	126,985	126,985
AUSTRALIA	0	0	0	0	0	0	0	0	101,854	1,323	103,177
ROMANIA	96,405	0	0	0	0	0	0	0	0	0	96,405
GERMANY/CHINA	0	0	0	0	0	0	0	0	87,188	0	87,188
TURKEY	0	0	0	0	0	0	21,605	55,265	0	0	76,870
MALTA	0	0	0	0	0	0	0	0	56,868	0	56,868
BURUNDI	0	0	0	0	0	0	0	0	40,847	0	40,847
NORWAY	0	0	0	0	0	0	37,414	0	0	0	37,414
POLAND/ITALY	0	0	0	0	0	0	0	0	37,037	0	37,037
ITALY/GERMANY	0	0	0	0	0	0	0	0	31,519	0	31,519
ZIUSMABRCAZA	0	0	0	0	0	0	0	0	30,697	0	30,697
TURKEY/GREECE	0	0	0	0	0	0	0	0	0	28,925	28,925
YUGOSLAVIA/SPAIN	0	0	0	0	0	0	27,425	0	0	0	27,425
GRTHINPHARCH	0	0	0	0	0	0	0	0	0	22,209	22,209
MALAYSIA	0	0	0	12,868	0	0	0	0	0	0	12,868
JAPAN/GREECE	0	0	0	0	0	0	0	0	5,677	0	5,677
ZIFRSPBRINGRIT	0	0	0	0	0	0	0	0	0	4,666	4,666
USTHBRINCH	0	0	0	0	0	0	0	0	0	2,310	2,310
MALAYSIA/USA	0	0	0	0	0	0	0	0	1,984	0	1,984
Total Pounds	72,176,420	170,526,020	194,693,336	225,478,467	222,838,342	189,339,267	205,706,012	276,837,423	461,927,081	490,895,801	2,510,418,169

1/ TOTALS INCLUDE FLUE-CURED, BURLEY, DARK AIR-CURED AND FIRE-CURED IN LEAF, STRIPS AND STEMS.
2/ COUNTRIES ARE RANKED ACCORDING TO TOTAL POUNDS 1984-1993.
3/ REPORTING PROCEDURE SOMETIMES REQUIRES COMBINATIONS OF COUNTRIES.
4/ JULY 13 - DECEMBER 31.
5/ JANUARY 1 - OCTOBER 22.

Mr. ROSE. Mr. Smith.

Mr. SMITH. Mr. Chairman, I would like to make just two brief points on the no-net cost issue as well. On Burley and Flue-cured tobacco, I would like to make the point that those are two separate pool accounts and the policies of Flue-cured in no way affect the pool for Burley. And on the contribution by the Burley growers and now, the purchases of the Burley tobacco, any funds contributed to those accounts are there for the use of the Commodity Credit Corporation for any loss on Burley tobacco and cannot be transferred for other purposes.

Mr. ROSE. And that is in which pool?

Mr. SMITH. The pools are separate.

But any contributions for Burley tobacco from 1982 up through the current crop, if they have not been used for Burley purposes, those funds are still in the account—they have not been lost—to the benefit of the growers.

Mr. ROSE. Is there ever a time under your comprehension that those funds would be a pro rata return to the farmers that paid them in?

Mr. SMITH. Under the current statute, the only condition would be if the growers were to vote the program out in the future or the co-ops were to cease to exist.

Mr. ROSE. Now, we talked about the peanut program coming up here on the airplane. And on the peanut program, the farmer gets a dividend.

And of course, that creates a problem because we have $91 million—$93 million, roughly, in loss in the Georgia peanut crop and no money in the pool to pay it up. Now that is roughly correct, is it not?

Mr. SMITH. Yes, sir. In the case of peanuts, when there is a profit on a particular crop, that profit is shared back with the grower. Since 1982 with the no-net cost program on tobacco, any crop that returns a profit, the net gains or the profit from that crop would go into the no-net cost account for use later on should we have a disastrous crop and we take losses.

Mr. ROSE. But, when you compute what the no-net cost fund is to be for the next year, you take into account how much money you have in the bank already, do you not?

Mr. SMITH. That is correct.

Mr. ROSE. That is the answer.

Mr. BAESLER. I have a couple of questions. First of all, Mr. Smith, you might be able to answer this or maybe Mr. Forlines. The co-op—a question has been asked is why can a co-op not sell directly to foreign manufacturers, and you gave me the best answer on that one time before, so if you could just sort of—Mr. Forlines. People often wonder why the co-ops cannot sell to foreign manufacturers. Could you explain that?

Mr. SMITH. Yes, sir. The price support program is administered by USDA and the Commodity Credit Corporation's law requires us to use existing trade channels to the extent practical in order to sell the Commodity Credit Corporation commodities.

In the case of tobacco, we do not call the loan, so it is not actually owned by the Commodity Credit Corporation, but we have a collateral interest. Because of the Government's collateral interest

in that tobacco, we require the co-ops to use existing commercial channels and not compete with those commercial channels in moving the tobacco into the ultimate end use. The issue there would be that a private company would have overhead costs that the co-op perhaps would not have because it is operated under a budget, where the Commodity Credit Corporation is advancing the funds. So, the co-op could be put in an advantageous position in comparison with the private sector. And that is prohibited by the policy and the statute under the Commodity Credit Corporation.

Mr. BAESLER. The second question I have, do you feel that the penalties against the tobacco companies regarding exceeding the limits on import content is adequate to keep them from taking the penalty and not complying with the law?

Mr. SMITH. This is under the new legislation, 75 percent?

Mr. BAESLER. Yes.

Mr. SMITH. Yes, sir. The penalties are pretty severe for a company that imports in excess of the 25 percent. And that penalty, plus the cost of having to purchase the tobacco in an international market, would certainly make that tobacco more expensive than domestic tobacco.

Mr. BAESLER. Two other questions. How is the oriental tobacco counted in the 75 percent rule? This is for people who have given me questions and I told them we would ask them before we quit.

Mr. SMITH. Yes, sir. The 25 percent issue is that we are proposing to issue regulations. It is our interpretation as far as proposing regulations for comments that the oriental tobacco is contained in the 25 percent. It accounts for about 14 percent of our imports. And it is our interpretation for purposes of proposing a rule that that is the intent of legislation, particularly when you look at the historical record or the—Jack, you may have to help me on this one—the legislative history. The legislative history would indicate that this was the intent of Congress.

Now my point there is that when you go to rulemaking, the public is given an opportunity to read the law and make their interpretation as well. And so we would expect that there would be comments to the contrary due to the rulemaking process.

Mr. BAESLER. The last question I have, for the record, what other U.S. grown commodities generate State excise and Federal excise tax and what are the values of them, as compared to tobacco, do you know?

Mr. SMITH. No, sir. I do not know that off-hand.

Mr. BAESLER. We will find that out for the individual, whoever asked the question.

Mr. SMITH. Yes, sir.

Mr. BAESLER. Thank you.

[The information follows:]

The following information was compiled by Tobacco and Peanuts Analysis Division, ASCS, U.S. Department of Agriculture:

Federal and State Government Alcohol and Tobacco Excise Tax Collections, Fiscal Years, 1990-93

Source of Revenue	1990	1991	1992	1993 1/
	million dollars			
Federal Government				
Alcohol	5,819	7,225	7,907	7,600
Tobacco	4,272	4,782	5,190	5,740
State Governments				
Alcohol	3,475	3,683	3,815	3,950
Tobacco	5,594	5,958	6,132	6,210
Federal and State Governments, Combined				
Alcohol	9,294	10,908	11,722	11,550
Tobacco	9,866	10,740	11,322	11,950

1/ USDA Estimates.

Compiled from reports of U.S. Bureau of Alcohol, Tobacco, and Firearms, and U.S. Bureau of Census.

Mr. ROSE. I want to thank you all one last time.

Mr. Smith, that means then that if oriental tobacco, which is necessary for flavoring, is roughly 14 percent of the 25 percent that would come in, then we are talking about 11 percent Flue-cured and Burley that can be imported, is that correct?

Mr. SMITH. Yes, sir.

Mr. ROSE. Thank you.

On that happy note——

Mr. SMITH. Or any other—it is not limited to just Flue-cured and Burley.

Mr. ROSE. Right.

Mr. SMITH. It could be imports of other kinds as well.

Mr. ROSE. Thank you.

I want to thank you all for your great job of testifying and answering our questions. I want to thank Congressman Baesler for making this hearing happen. This is the first tobacco hearing we have held in the field in this Congress. And I apologize I could not come here in August, but I am glad we are here this month. And I am proud that the team of—it sounds like a law firm, but it is really the team of Baesler, Barlow, Natcher, and Ford is in place.

Thank you all very much, and this hearing is adjourned.

[Whereupon, at 1 p.m., the subcommittee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

STATEMENT BY DALLAS R. SMITH, DEPUTY UNDER SECRETARY
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS
U. S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON SPECIALTY CROPS AND NATURAL RESOURCES
COMMITTEE ON AGRICULTURE
U. S. HOUSE OF REPRESENTATIVES
OCTOBER 29, 1993

Mr. Chairman and Members of the Subcommittee, I am happy to be here with you today in Lexington, Kentucky, to discuss the different issues as they relate to the tobacco price support program. I also have with me Jack Forlines, Acting Director of the ASCS Tobacco and Peanuts Division, Robert Miller, Director of the ASCS Tobacco and Peanuts Analysis Division, and Larry Hopkins, Director of the AMS Tobacco Division. After my opening statements, these gentlemen will assist me in responding to any questions you wish to ask.

Tobacco has continued its positive contribution to the U.S. trade balance during the first eight months of 1993. Exports surpassed imports by $2.45 billion during the January-August 1993 period. Unmanufactured tobacco contributed $921 million and tobacco products added an additional $3.54 billion in export earning. Cigarette exports during the period totaled $2.41 billion. Burley tobacco accounted for over $341 million of the unmanufactured tobacco shipments. Flue-cured and fire-cured tobacco added $464 and $30 million respectively. The estimated farm-sales-weight equivalent of the burley tobacco exported is 152.7 million pounds.

FORCES OF CHANGE

I want to identify a number of forces of change with the potential to impact on tobacco industry and potential impacts on various sectors of the industry. At the sector level, a force of change impacts one or more of the determinants of income; that is, price, average cost of production or quantity produced and sold. These impacts generate structural change as measured by the number and size of individuals and entities in the sector and location of the activity.

Each force of change will exert unique impacts upon the structure of the industry. In some cases, the influence upon an income determinant is predictable, while with others, the effect, i.e., incidence, direction and magnitude, is not readily discernible.

Two major items are (1) the minimum domestic tobacco content law, with regard to U.S. manufactured cigarettes, and (2) changes in Federal excise tax rates.

Other forces are: (1) The rising budget deficit; (2) The adoption of "no-smoking" areas, and declining social acceptance of cigarette smoking; and (3) The continued erosion of U.S. market shares to low-cost foreign producers. My statement today will concentrate on the minimum domestic tobacco content law.

As you know, Mr. Chairman, the flue-cured market has experienced weak demand with a large quantity of tobacco being taken by the Flue-Cured Stabilization Corporation. There are several factors involved. We understand the quality of the 1993 crop is considerably below average. Furthermore, the U.S. manufacturers face a great deal of uncertainty about the future of Federal and state excise taxes and are trying to determine their options under the minimum domestic content law.

Through October 21, most of the 1993 flue-cured crop had been sold at an average of $1.68 per pound, four cents below a year ago. Loan receipts represent one-fifth of the crop and have reached the highest amount since 1983. We cannot tell whether or not some of these same conditions will occur for burley tobacco when the burley market opens next month.

DOMESTIC CONTENT REQUIREMENTS

The 1993 Budget Reconciliation law, enacted August 10, amended the Agricultural Adjustment Act of 1938 to provide a 75 percent level of use of U.S.-grown tobacco in cigarettes produced in this country. This is commonly known as the "Ford Amendment". Currently, about 40 percent of tobacco used in domestically-produced cigarettes is imported. Thus, to comply with the new law, manufacturers will have to sharply reduce the amount of imported tobacco share in their blends. As multinational firms,

manufacturers could shift some portion of their output to overseas factories.

These 1993 amendments require U.S. domestic manufacturers of cigarettes to certify annually to the Secretary of Agriculture the percentage of U.S.-produced tobacco in the total quantity of tobacco used by the domestic manufacturer to produce cigarettes during the calendar year. Affected manufacturers who exceed the 25 percent foreign content limitation or who do not certify the percentage of foreign content used will be required to pay a non-refundable marketing assessment to the Commodity Credit Corporation. In addition, affected manufacturers who exceed the 25 percent limit must purchase U.S. tobacco (in equal amounts divided equally between flue-cured and burley) from domestic producer-owned cooperative marketing associations in an amount equal to the quantity of imported tobacco that was used in excess of the 25 percent limit. Failure to purchase the required amount of tobacco from the associations can result in a penalty assessment equal to 75 percent of the average market price for the respective type of tobacco for the total purchase shortage.

The United States and virtually all of our trading partners are contracting parties to the General Agreement on Tariffs and Trade (GATT). Under GATT, countries may request consultations and dispute settlement proceedings if they believe another country has taken any action in which there is a violation of

GATT. Subsequent to enactment of the legislation, leading suppliers of tobacco to the United States formally requested consultations under GATT to review the consistency of the "Ford amendment" with our international obligations. The initial consultations were held on October 4, and the United States is in the process of preparing an official response to questions raised during the consultation. At the end of these consultations, these countries may request that the United States action be examined by a GATT panel of experts. If a GATT panel were to find the measure inconsistent with the GATT, the United States would be requested to take corrective action.

PROPOSED RULES

The Department is developing proposed rules for implementing the domestic content requirements for domestically produced cigarettes and to impose the assessments on imported tobacco. The proposed rules will be published in the Federal Register and the public will be afforded an opportunity to comment before a final regulation is published.

With excess supplies, flue-cured and burley marketing quotas are both likely to decline 10 percent in 1994. Beyond next year, the path of U.S. production depends on the changes in Federal cigarette taxes, state and local taxes, and the margins of U.S. cigarette manufacturers, as well as whether or not U.S. firms

move any of their processing facilities overseas. Restrictions on where people can smoke will probably grow and the social acceptability of smoking will probably decline further. In addition, the U.S. industry faces stiff competition from foreign tobacco growers in supplying world leaf requirements.

Mr. Chairman, this gives a brief overview of where we are on tobacco. We will be glad to respond to your questions.

(Attachments follow:)

Total Imports
All Types

Chart #1

Year	Kilograms	Pounds
1985	77,350,085	170,526,020
1986	88,312,318	194,693,336
1987	102,276,370	225,478,467
1988	101,078,793	222,838,342
1989	85,883,715	189,339,267
1990	93,307,651	205,706,012
1991	125,572,649	276,837,423
1992	209,528,718	461,927,081
Thru Sept. 1993	207,121,329	456,619,682

Comparison

January - September	Kilograms	Pounds
1992	145,688,184	321,184,170
1993	207,121,329	456,619,682

Chart #2

Total Imports
All Types

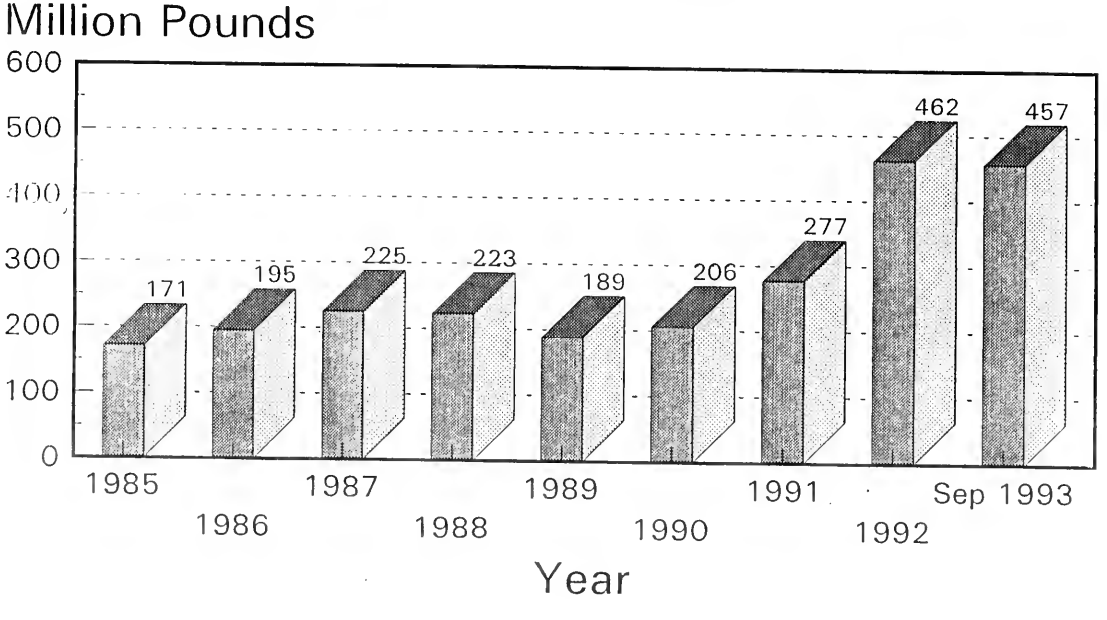


Chart #3

*200 million lbs
70 million lbs

Burley Tobacco
Imports

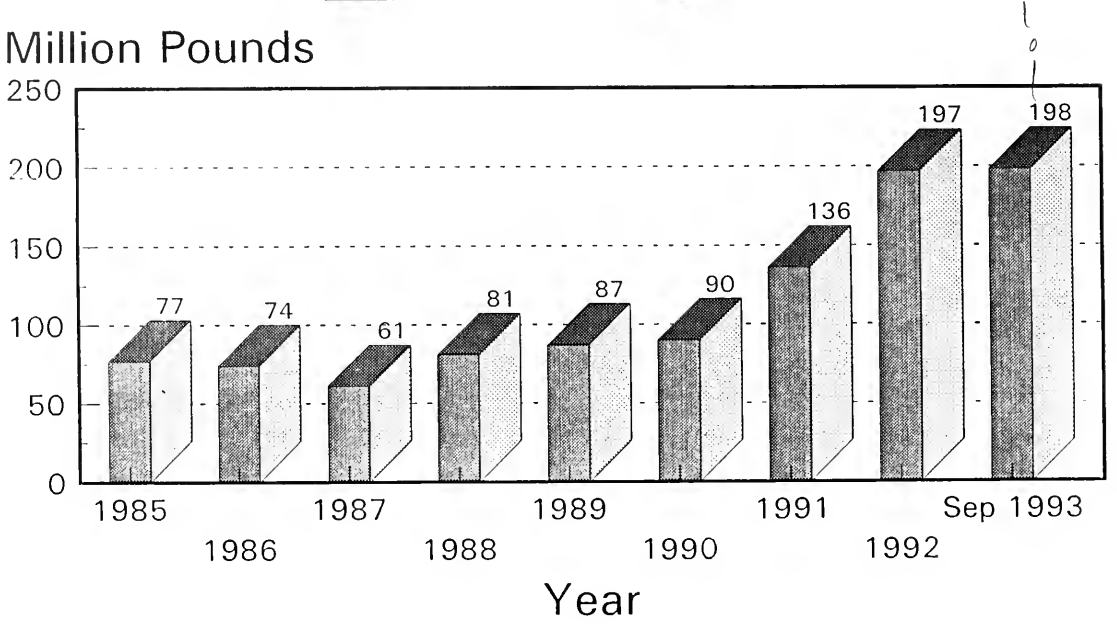


Chart #4

Flue-Cured Tobacco
Imports

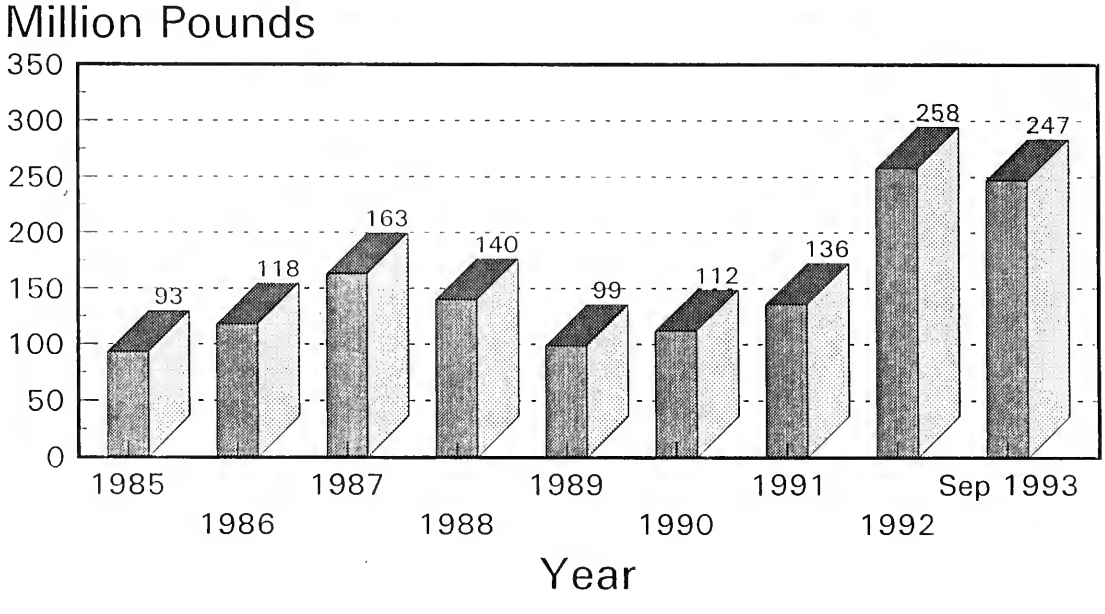
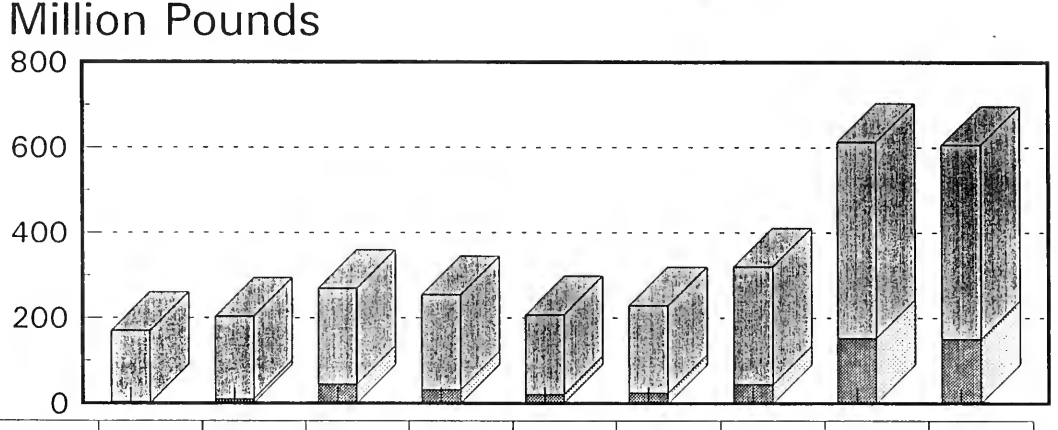


Chart #5

Comparison Of Stems
To All Imports

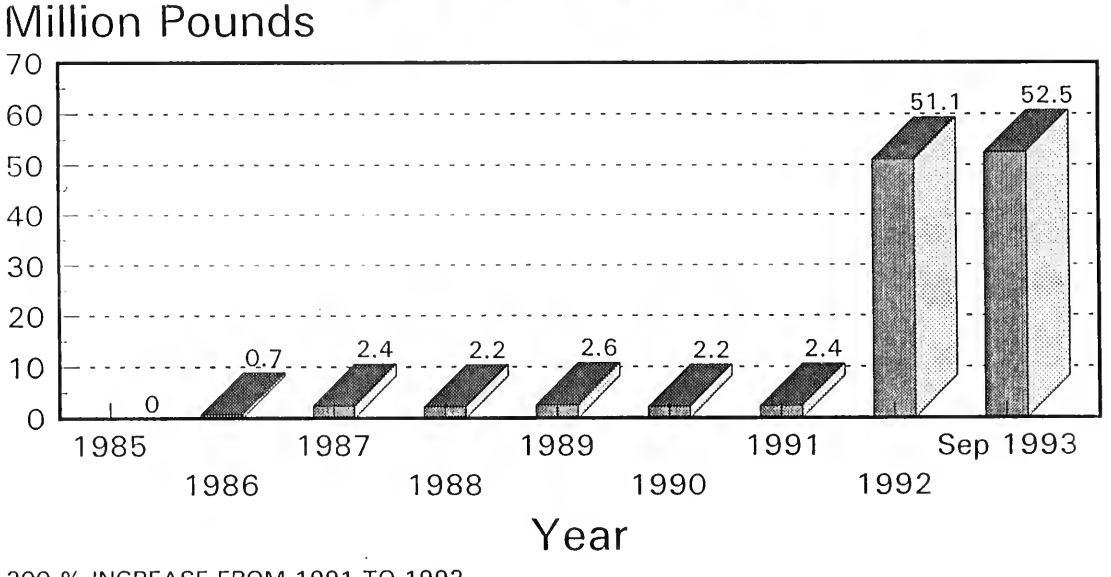


Year	1985	1986	1987	1988	1989	1990	1991	1992	Sep 1993
All Stems	0	9	44	31	20	24	44	152	150
Total Imports	170	194	225	223	187	205	276	461	456

33 % OF ALL IMPORTS IN 1992

Chart #6

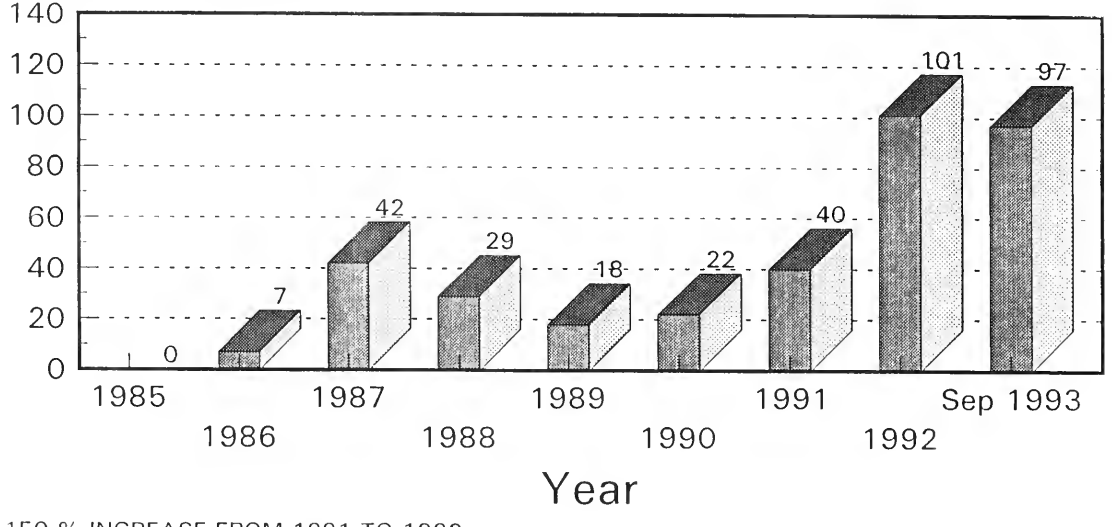
Burley Stems
Type 93



200 % INCREASE FROM 1991 TO 1992

Chart #7

Flue-Cured Stems
Type 92

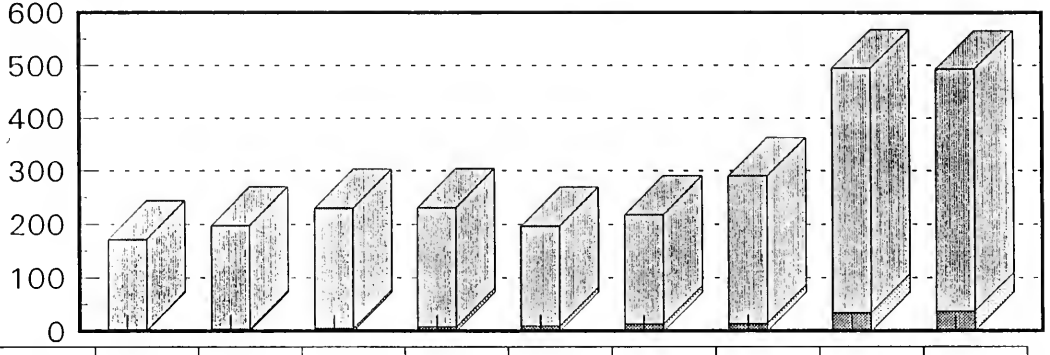


150 % INCREASE FROM 1991 TO 1992

Chart #8

Comparison Of Scrap
To All Imports

Million Pounds



Year	1985	1986	1987	1988	1989	1990	1991	1992	Sep 1993
All Scrap	1.5	3.5	5.1	8.2	9.5	12.8	13.9	33.7	36.8
Total Imports	170	194	225	223	187	205	276	461	456

SCRAP - 144 % INCREASE FROM 1991 TO 1992
GRADING FEE - $0.45/100 POUNDS

Chart #9

Burley Scrap
Type 93

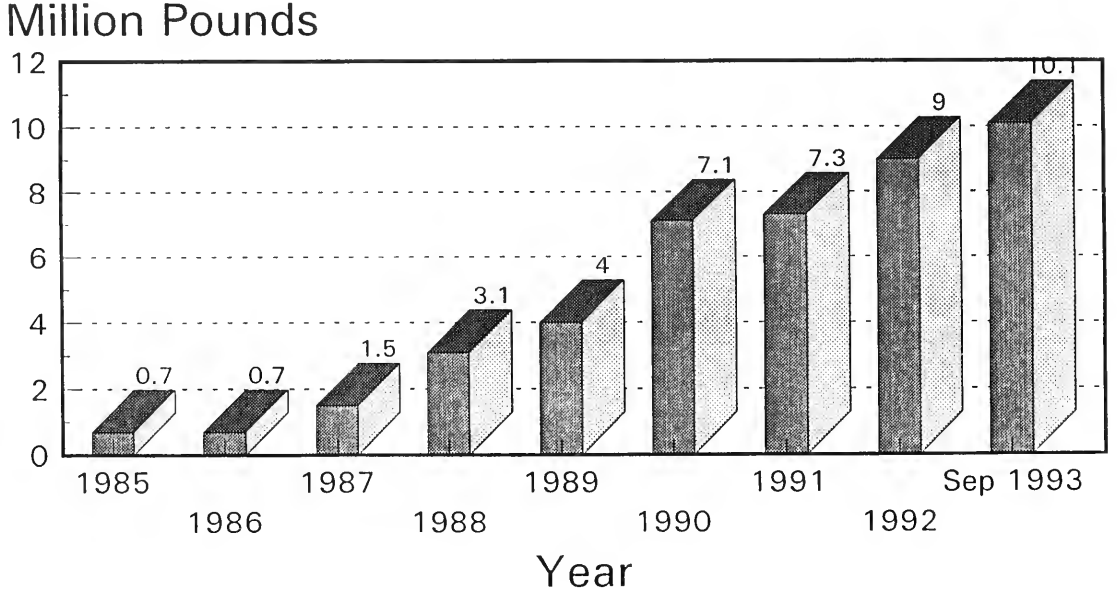
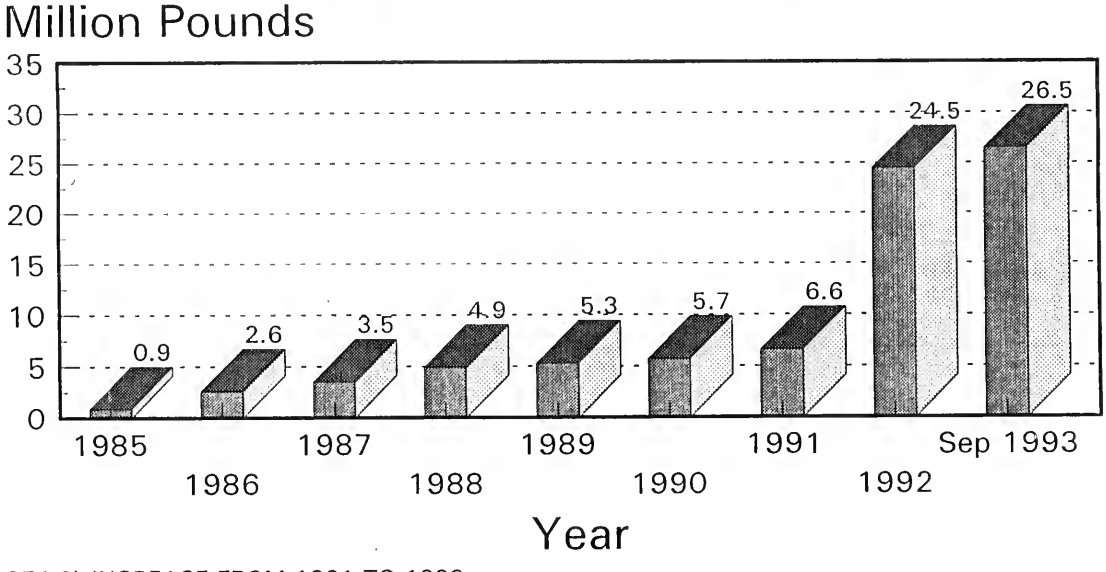


Chart #10

Flue-Cured Scrap
Type 92



274 % INCREASE FROM 1991 TO 1992

Chart #11

Dark Air-Cured Scrap
Type 95

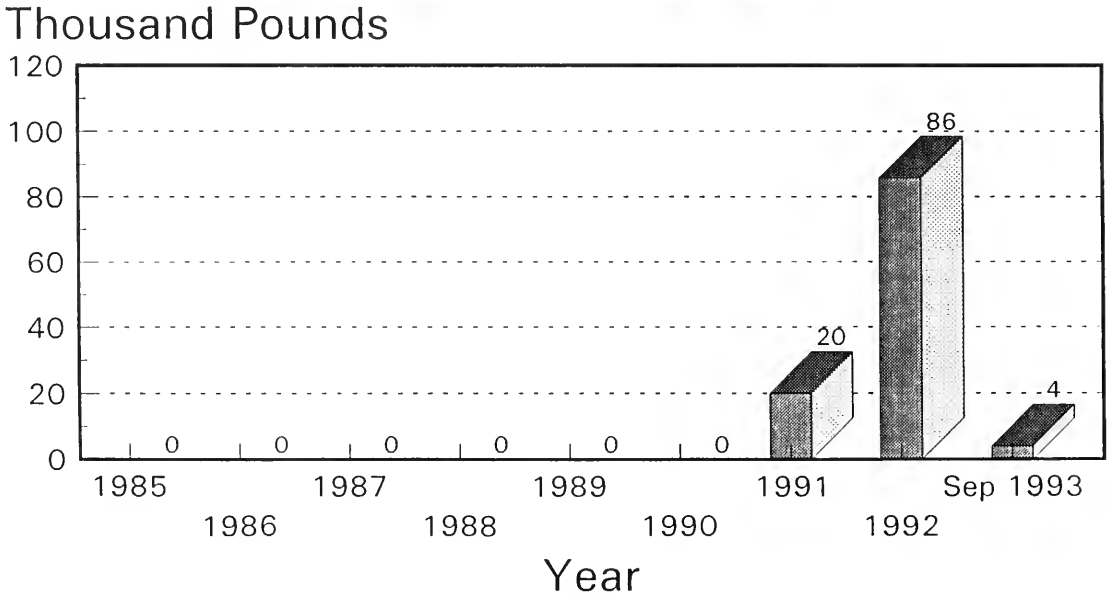
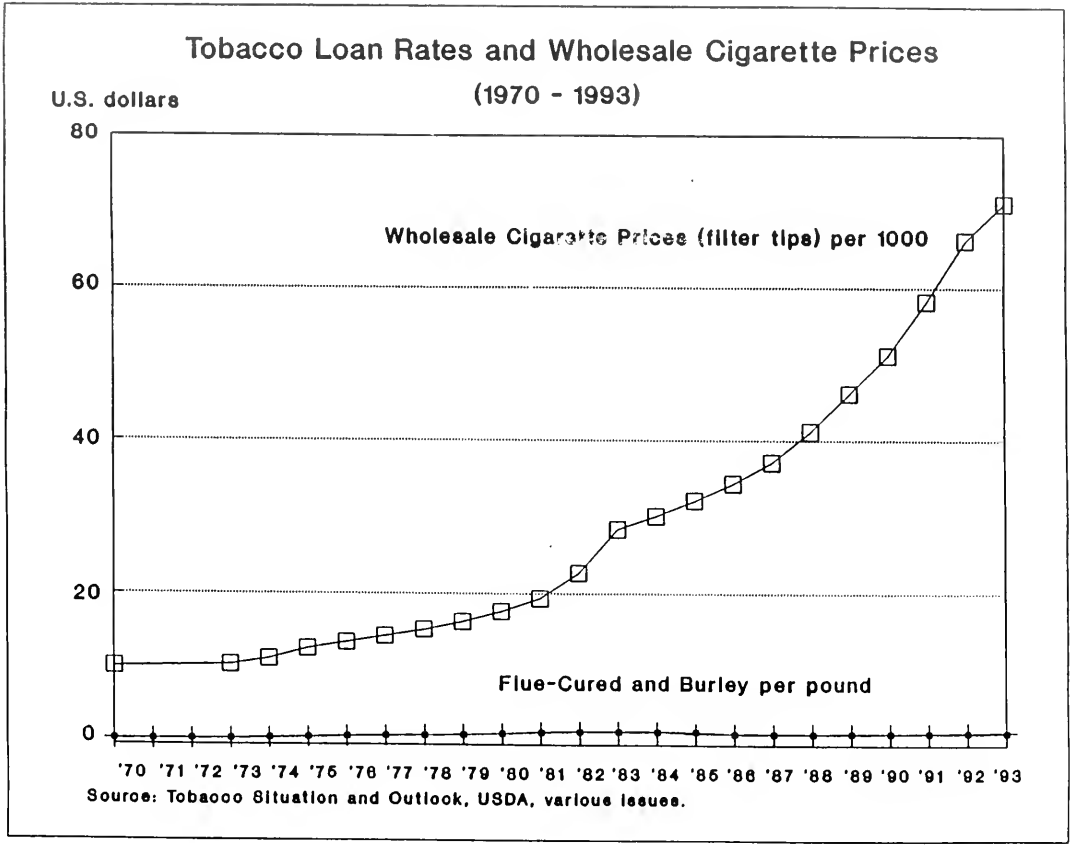


Chart #12

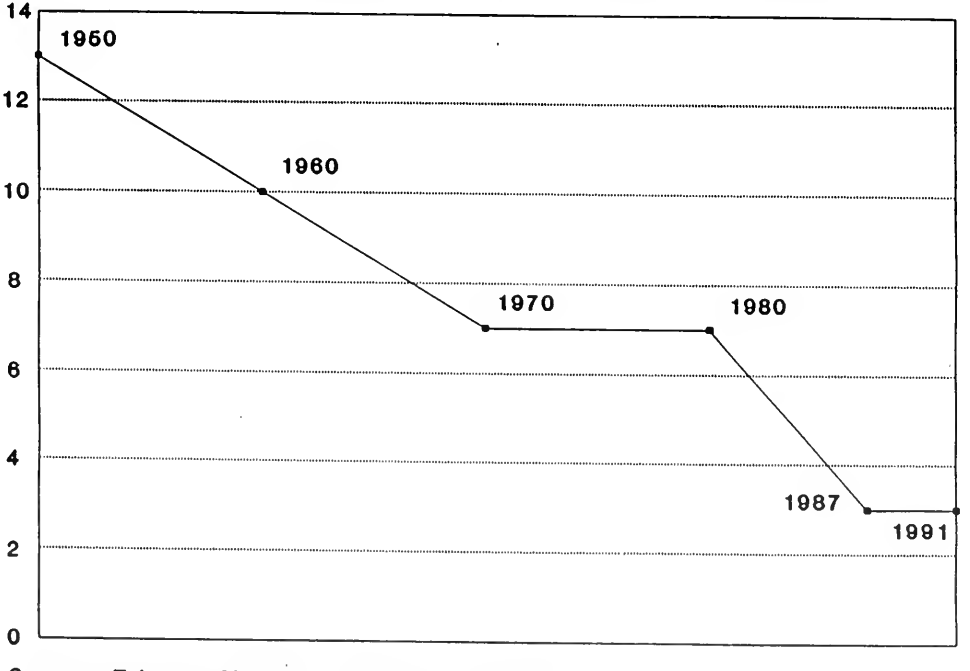
Total Imports By Country
From 7/13/84 To 10/13/93

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	TOTAL
BRAZIL	24,460,541	80,468,153	77,329,424	85,585,966	84,510,344	80,109,386	88,891,064	99,189,870	173,290,481	141,141,847	934,977,076
CANADA	9,592,677	15,725,064	29,593,548	26,648,845	16,513,668	7,300,220	10,757,469	15,932,439	24,193,996	13,442,297	169,700,223
ZIMBABWE	2,157,397	5,946,294	8,127,272	6,194,965	15,638,474	7,919,225	12,559,049	12,959,192	37,700,975	58,539,911	167,832,754
MALAWI	3,565,992	9,378,257	12,766,869	11,664,148	12,592,160	13,427,369	17,605,772	24,493,506	28,703,043	30,860,967	165,058,083
ARGENTINA	4,910,408	8,367,760	8,930,499	13,297,233	12,999,084	12,753,112	15,191,000	27,719,926	35,879,401	23,424,011	163,472,434
GUATEMALA	0	9,135,688	6,679,269	6,554,292	10,309,958	10,459,663	11,058,823	8,900,723	21,468,434	29,360,460	113,927,310
THAILAND	9,040,450	3,184,837	8,396,277	9,367,858	1,396,527	7,315,925	2,207,319	11,387,604	30,810,399	29,378,278	112,485,474
MEXICO	1,090,559	5,713,543	8,517,907	5,820,082	11,319,131	13,024,855	8,648,382	10,080,581	6,686,775	20,108,805	91,010,620
ITALY	3,741,592	4,661,340	5,665,020	6,050,257	9,525,302	8,467,893	7,231,261	14,977,682	13,943,656	9,646,505	83,910,508
CHINA	0	0	510,791	262,669	1,714,307	2,117,299	2,404,777	5,310,933	11,057,128	32,144,154	55,552,058
CHILE	2,651,820	3,095,820	2,281,971	3,761,603	3,453,030	4,494,619	4,500,073	5,289,366	7,170,356	2,905,710	39,607,368
JAPAN	381,995	802,031	4,185,734	22,724,425	8,003,638	2,040,901	739,864	9,943	937	0	38,892,471
GREECE	1,212,100	104,296	0	1,030,159	3,378,436	3,700,643	6,557,043	7,879,968	9,314,109	3,858,897	37,035,651
SOUTH KOREA	2,942,038	7,712,110	2,953,722	11,737,767	5,805,308	2,646,120	1,149,072	283,657	119,384	44,092	35,393,270
PHILIPPINES	0	154,701	1,181,312	1,649,401	1,364,955	592,316	1,009,928	6,966,067	11,569,001	8,699,552	33,187,233
HONDURAS	595,661	3,652,489	2,264,782	863,237	1,404,988	2,094,200	1,814,612	2,654,695	4,094,507	7,099,850	26,539,021
FRANCE	0	623,716	580,716	2,198,532	8,555,599	2,792,455	3,207,144	1,197,486	1,230,493	707,650	21,093,791
SOUTH AFRICA	3,394,917	4,566,779	7,971,281	0	0	0	0	0	1,826,468	2,696,884	20,456,329
GERMANY	1,369,899	0	1,516,102	2,996,317	1,766,538	1,201,932	915,610	1,016,800	3,598,676	3,154,724	17,536,598
PANAMA	0	1,046,022	929,072	1,289,960	1,444,393	2,030,728	2,371,922	2,115,390	3,045,411	1,959,288	16,232,186

Only Top 20 Countries Listed
All Figures Shown In Pounds


Tobacco Loan Rates and Wholesale Cigarette Prices
(1970 - 1993)
U.S. dollars
80
60
40
20
0
Wholesale Cigarette Prices (filter tips) per 1000
Flue-Cured and Burley per pound
'70 '71 '72 '73 '74 '75 '76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93
Source: Tobacco Situation and Outlook, USDA, various issues.

Farm Value of Tobacco as a Percentage of Consumer Expenditures for Tobacco Products



Source: Tobacco Situation and Outlook, USDA.

Statement before the Subcommittee on Specialty Crops and Natural Resources
Lexington, Kentucky
October 29, 1993

My name is William Snell. I am an assistant extension professor in Agricultural Economics at the University of Kentucky. I was raised on a 6 generation tobacco farm just 15 miles north of campus where my family is still actively involved in tobacco production. Part of my extension assignment at the University of Kentucky is working with farm groups, legislators, and farmers across the state on tobacco policy, marketing and trade issues. This morning I would like to share with the subcommittee some of my viewpoints on the impact of certain changes and proposed changes in Washington D.C. on tobacco farmers in Kentucky.

I was involved with the farm groups in their discussions surrounding the domestic content legislation. While their still exists much debate among farm groups and industry personnel over this legislation, there is no doubt in my mind that without this legislation Kentucky farmers would have been looking at lower burley prices and excessive pool stocks for the 1993 crop, a 20% or more cut in the burley tobacco quota for 1994, and burley imports approaching 35-40% of total burley use.

While this legislation does provide a lot of reason for concern in the export market in terms of lost leaf and cigarette exports, the gains in the domestic market, assuming manufacturers adhere to the 25% threshold level, should outweigh the losses in the export market in the short-term.

In analyzing this anticipated decline in exports, one must keep in mind that even without this legislation, U.S. tobacco exports would have likely declined in the current marketing environment of excessive world tobacco supplies and U.S. cigarette manufacturers utilizing more foreign cigarette plant capacity. The question becomes has

this legislation accelerated these trends? The answer to this question and thus the mid- to long-term impact of this legislation hinges considerably upon the U.S.'s ability to remain price/quality competitive in the world burley market. This will be a real challenge to U.S. tobacco farm groups given the current price environment. The structure of our price support formula will likely continue to call for modest increases in the average price support in the near future while world burley prices will continue to fall amidst excess world burley supplies. This will put increasing pressure on farm groups to address price support and lease price issues as well as require farmers to reduce production costs in order to sustain burley profitability at recent levels.

The proposed increase in the federal excise tax on cigarettes represents another major challenge facing the Kentucky tobacco farmer. By my calculations a 75 cent per pack increase in the federal excise tax on cigarettes will initially reduce Kentucky burley demand by some 30 to 50 million pounds, valued at some 50 to 90 million dollars. States will undoubtedly respond to this federal tax increase by increasing state excise taxes on tobacco products in order to keep their tobacco tax revenue base from falling abruptly amidst falling consumption. As a result, the short to mid-term effect of these federal and state excise tax increases could easily erode away another 15 to 20 percent of an already declining Kentucky burley tobacco quota base. Considering that the tobacco dollar in many rural Kentucky communities may "rollover" three to four times, large increases in federal and state tax revenues will undoubtedly have a devastating impact on many rural Kentucky counties. Tobacco in many of these counties accounts for more than 50% of net farm income and contributes greatly to property values and thus local tax bases.

Let me close by sharing with you a few of my expectations regarding the 1993 market. The 1993 burley market will be affected by many of the same factors that are

currently adversely affecting the 1993 flue-cured market. These include excess world tobacco supplies at considerably lower prices, uncertainty with regards to the domestic-content legislation and the proposed federal excise tax increase on cigarettes. However, the quality of the 1993 U.S. burley crop will be considerably better than the quality of the 1993 U.S. flue-cured crop. Despite a good quality crop, burley loan (pool) receipts will likely exceed 100 million pounds this marketing year and may even surpass 150 million pounds. As a result, the price support attached to each lot of tobacco will be very critical in determining a farmer's price on the 1993 crop. Given that around 60% of the grades that U.S. burley farmers typically market in a given year will have price supports of 1.80 or higher attached to them this marketing season indicates that prices will likely average in the upper $1.70's to low $1.80's per pound compared to 1992's crop average of $1.815 per pound.

Examining the components of the burley tobacco quota formula reveals that growers will likely receive another 10% reduction in quotas for 1994 (the maximum allowed under the revised tobacco program). In response to this depressed market outlook, Kentucky agricultural leaders and farmers are very uncertain about the future agricultural economy in this state. Farmers are attempting to diversify their operations with other crops to supplement declining tobacco income. However, the price and income instability associated with these crops coupled with an inadequate infrastructure system to support these crops has so far limited the success of these so called "alternative crops". In reality, a large number of Kentucky farmers appear that they will attempt to "weather-out the storm" on a commodity whose future may depend more on political action taken in Washington D.C. than on traditional economic forces.

STATEMENT BY R.F. "RANDY" HARRISON
DIVISIONAL VICE PRESIDENT
LEAF OPERATIONS
BROWN & WILLIAMSON TOBACCO CORPORATION
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON SPECIALTY CROPS AND NATURAL RESOURCES
AT THE
SEAY AUDITORIUM
UNIVERSITY OF KENTUCKY
LEXINGTON, KENTUCKY
FRIDAY, OCTOBER 29, 1993

Mr. Chairman, thank you for the opportunity to meet with you today and to discuss the outlook for the 1993 burley crop here in Kentucky. You have asked for comment regarding how we see the demand for this year's crop, to relate the buying process to the current auction system, and to also discuss the role that the pool plays in the selling of tobacco, as well as some specific comments about the hundred pound weight limit and requirements of the ten day weigh in and receiving periods.

Mr. Chairman, I am very pleased to be here and to be a member of this panel. I shall be brief in my remarks. My name is R.F. "Randy" Harrison, Vice President of Leaf Operations for Brown & Williamson Tobacco Corporation -- which in the growing community is known as Export Leaf Tobacco Company -- or "ELT". I am based at our central leaf processing facility at Wilson, North Carolina, but spend a great deal of time here in Kentucky, especially when the tobacco markets are open.

Brown & Williamson Tobacco Corporation is the nation's third largest cigarette manufacturer and is headquartered at Louisville. B&W has a long historical relationship with Kentucky of which all of our employees are quite proud.

Let me also take this opportunity to thank this subcommittee for its work over the years. Your oversight regarding tobacco gives direction and guidance to an industry rich in American heritage but often maligned of its dignity.

You asked me today to address issues related to this year's Kentucky burley tobacco crop and to the upcoming market which opens here in Kentucky on Monday, November 22, just prior to Thanksgiving.

As we see it, this year's burley crop, overall, will be an average to better than average crop, a very usable crop. Our buyers have been in the field and their reports to me are that this is a better than average crop and that also there has been very little "house burn," or damage to the crop during the drying process, and that there is very little muddy tobacco as a result of field drying, so I can report we expect a good crop of Kentucky burley this year.

We support the U.S. Department of Agriculture's estimate that this year's crop will come in at approximately 620 million pounds, with some additional tobacco being added because of carryover from last year. We believe purchases will be approximately 450 million pounds, resulting in approximately 175 plus million pounds of burley finding its way into the pool this year, up from 142 millions pounds of burley placed in the pool a year ago.

Mr. Chairman there are a number of reasons why this amount of burley may go into the pool.

First, there is a tremendous excess of world tobacco stock. Supply simply outstrips demand and it exacerbates the high U.S. pricing situation. Export requirements are down due to high U.S. prices, especially when compared to market prices in other parts of the world. In addition, the international tobacco climate, while of strong potential, is perhaps also taking longer to unfold, due to trading yet to open in some parts of the world.

Another factor is the recent enactment by the Congress of domestic content legislation requiring 75% U.S. tobacco content in all cigarettes manufactured in the United States. While the objective of reducing imports is widely agreed in the U.S. tobacco industry, we believe a statute that forces domestic content is unsound as a matter of economic theory, clearly offends our best trading partners (e.g. Turkey) and departs from good business practices. Only the future will tell if even in the short term the legislation will have the desired effect of reducing imports. In the long term, it clearly will not work.

Other factors this year are the potential for new excise taxes, as well as the potential for even additional restrictions regarding the use of tobacco products.

So, taken together, all these factors have created uncertainty in the market. The result is conservative purchasing practices across the tobacco belt. This conservatism has already surfaced in the flue cured markets and is likely to occur in the burley market.

Perhaps some comparison is in order. The flue-cured crop this year, is approximately the same size as the previous year, when some 83 million pounds went into the pool.

This year approximately 195 million pounds are expected to go into the pool. The heavy drought and heat during the 1993 season resulted in a crop substantially below average. But even it there had been a good crop, it is my opinion the pool results would have been approximately the same.

The combination of forces I have already outlined, especially the glut of tobacco on the world market, has resulted in export orders being down this year. When you take into account international considerations, combined with the lowering of domestic intentions related to the turmoil in the U.S. market, it is understandable why both the flue-cured and burley pools are projected to be up considerably this year.

- - Pause - -

Mr. Chairman you have also asked me to comment on the auction system and some other issues related to the tobacco selling season. Let me take just a minute to review those with you.

I have witnessed, and I believe my colleagues from the other companies will agree on this, government graders have been grading tobacco at a higher grade than the reality. The result is that tobacco buyers, who in the past might have purchased these tobaccos, are not buying the overgraded tobacco -- especially in the face of a glut of tobacco worldwide. That has been true in the burley markets in the past and it was true this year in the flue cured markets.

Overall, the support system has merit, it works to balance needs from year to year, but it should be based on market prices, with a view toward world market prices, and structured within the reality of the international laws of supply and demand, not just U.S. prices and not simply increased year after year.

Tobacco is a world commodity. We must all learn the realities of this new globally competitive marketplace.

Regarding the issue of hundred pound bale limits, I urge such limits not only be placed into regulation but enforced once it becomes the standard.. There are a number of reasons. The first being simply the physical labor of moving such bundles. It becomes too burdensome when the weight reaches beyond a hundred pounds, especially in light of eight or even ten hour days. In addition, the larger bales are also the occasion for mischief. Nesting becomes easier. Moisture retention, mildew and mold can become an issue in the larger bales. It is for these reasons I urge the hundred pound bale weight limit be imposed. I emphasized the issue of enforcement.

Regarding the maximum of the 10-day waiting period, we would support a shorter waiting period if possible. Recognizing the pressure it puts on the warehouses, we prefer the period of time for weigh-in be as close to the date-of-sale as possible because the tobacco often can gain or lose moisture while it sits on the floor. It has been the experience of our buyers that too often, they purchase a hundred pound bale to find later it is five or ten pounds short of weigh in. The shortening of the 10-day period would help eliminate that problem. I should also like to add that as buyers, we urge the warehouses to follow the rules of good lighting and spacing, as

defined by the Agricultural Marketing Service. Such service will help insure fair pricing, improved sales, and will allow for the realities of the marketplace.

At the auction house we must work to improve the system, better presentation, realistic grading; we must work to insure that the grower gets a fair price, and that the buyer also get what he is paying for.

We always have and will continue to support the action system, if in fact it is an auction system, and not an allocation system, and in this age of growing competition, I urge this committee to encourage the Agricultural Marketing Service to supervise and improve its management of the tobacco warehouse marketing system.

In closing, I would urge that we all be aware of the reality of the competitive marketplace. It behooves us, all of us, to realize that tobacco is a global commodity and that like automobiles or computers, we must compete in a world market.

Mr. Chairman, that concludes my remarks but I will be happy to answer any questions. Thank you for your attention.

Congress of the United States
House of Representatives
Washington, DC 20515

September 28, 1993

President William Jefferson Clinton
The White House
Washington, D.C. 20500

Dear President Clinton:

We commend you for stepping forward and providing the much-needed and long-awaited leadership to overhaul the nation's health care system. We agree that the system's current condition warrants extensive examination by Congress. Many of us have urged past Administrations to undertake the effort that you and the First lady have started. The six guidelines that you presented on Wednesday night - security, simplicity, savings, choice, quality and responsibility - are fundamentals embodied in legislation that many of us have sponsored.

We believe, however, that a critical element is missing. That element is "fairness." Experience dictates that support of the plan will hinge on the voters' perception that the plan is fair for all Americans. As you indicated, financing the plan will rely solely upon two sources of new taxes: an increased tax on tobacco products and a surcharge on large corporations who choose to retain their existing self-funded health care plans. While polls show that support exists for increasing tobacco taxes, we are certain that those polled do not realize the tax will fall disproportionately on people who live in one region of the country, the Southeast. Be assured that the 681,000 people engaged in the production, manufacture, and sales of tobacco products who live in our states and Congressional districts and whose livelihoods are being jeopardized do not view an unreasonable tax as fair.

Mr. President, we would like to work with you and the First Lady on the specifics of the plan before it is sent to Capitol Hill. In that regard, we request the opportunity to meet with you as soon as possible. We must ensure our constituents that the plan is balanced and equitably financed.

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The President
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September 28, 1993

With kindest regards, we are

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Flue-Cured Tobacco Cooperative Stabilization Corporation
Raleigh, North Carolina

BRUCE L. FLYE
PRESIDENT

P. O. BOX 159
BATTLEBORO, N. C. 27809

November 24, 1993

Congressman Charlie Rose
Chairman, Subcommittee on Specialty Crops
Room 1301, Longworth Building
Washington, D.C. 20515

Dear Charlie:

Thank you for your letter and the column out of the November 14th **Wilmington Star News**. It is evident the newspaper did not do their "homework", or they would have known the whole infrastructure of Eastern North Carolina would "crack" without the benefits of tobacco, and that 2.6 million jobs throughout the United States are related, directly or indirectly, to tobacco.

Your record is clear; you have chosen to serve the "little" man, the dirt farmer being only one of many entities that you have served well at the expense of personal financial gain. In truth, the headline should have read: "He has principles, and they're not for sale."

The tobacco farmers have much to be thankful for. You have exposed the crooked dealings of some companies that were hurting farmers; the 73 million pound sales by stabilization last November; and, more importantly, the tobacco import provisions in the budget reconciliation bill.

Charlie, the excise tax started out at $2.00 per pack. The President received a warm enthusiastic applause when he said to Congress the excise tax would be increased; and the 75% of the people (who do not smoke) could care less what happens to tobacco, and now the proposed tax is down from $2.00 per pack to $.75 per pack.

This would not have happened without your influence with the Congress and your apparent good relationship with the President.

Thanks again for all you have done and are doing, and let me know of anything I can do.

Sincerely,

Bruce

Bruce Flye

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